UNIT I

1 Introduction to Personal Selling

Personal selling is a distinctive communication form because it is a two-way communication that involves social interaction with prospective buyers. It has been the oldest form of marketing that started when peddlers moved from door to door to sell their products. Personal selling declined during the first quarter of the twentieth century because of heavy demand by the public.

2 Objectives

This unit's objectives are to cover the following titles.

1. Introduction to personal selling	2. Types of selling
4. Alternative sales structure	5. Direct marketers
6. Mail order selling	7. The selling process
8. Selling strategies and styles	9. Formulating sales objectives
10. Sales forecasting	11. Estimating market sales potentials

These titles will enrich MBA-Marketing students to be well versed with the two promotional mix tools personal-selling and direct marketing.

2.1 Definitions of personal selling

1. Philip Kotler defines personal selling as "a face-to-face interaction with prospective purchasers for the purpose of making sales".
2. Irving J.Shaprio defines personal selling as "an art of successfully persuading prospects or customers to buy products or services from which they can derive suitable benefits, thereby increasing their total satisfaction".
3. "Personal selling is an oral presentation of goods to one or more prospective customers to promote sales".

It helps in the transfer of the title a face-to-face interaction between the sales person and the buyers. The sales people become aware of the problems of the buyers and suggest suitable products or services to satisfy their wants.

Significance of personal selling

The significance of personal selling are as follows.

a) Personal selling is an important ingredient in the promotion mix.

b) It has been observed that twenty percent of the sales are affected through personal selling.
c) By personal selling the salesman reaches the prospective buyers whom other promotional measures cannot reach.
d) Personal selling is flexible, as it can adjust to the immediate reactions of the potential buyers.
e) Feed back of sales efforts is possible in personal selling.
f) Personal selling is the easy way to find the target consumer.

Limitations of personal selling

The limitations of personal selling are as follows

a) Personal selling involves substantial costs of travel, literature publication, samples, surveys, management and control.
b) It is less attractive for small companies.
c) Sales people do not take much interest in sales promotion, they waste their time and shift to other
d) Personal selling cannot become effective without proper training and adequate motivation of sales persons.

Personal selling tools

The common tools used in personal selling are

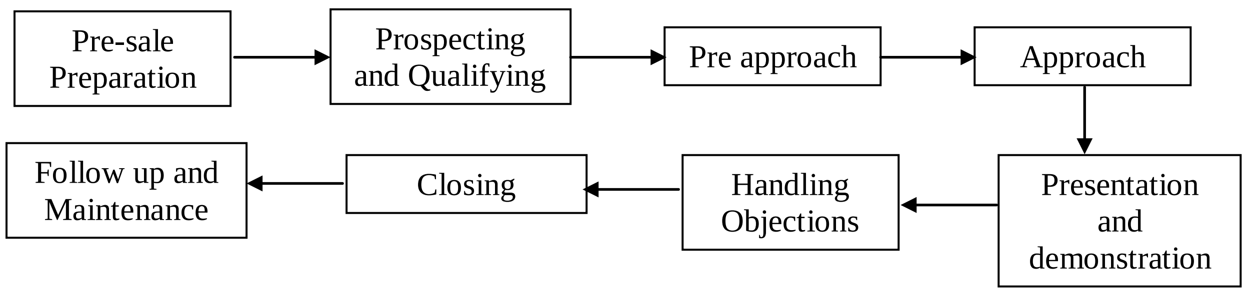
1. Sales presentations
2. Sales meetings
3. Incentive programs
4. Samples
5. Fairs and trade shows

Qualities of sales force for personal selling job

Personal selling is not a routine job. It requires special qualities and capabilities those qualities are

a) Hard work
b) Initiative
b) Sales techniques and Knowledge

Personal selling process



a) <u>Pre-Sale preparation</u>

It involves all the preparations for getting ready for the selling process by the salesmen. The salesman has to be familiar with the product, the market, the techniques of selling and organization. He would be successful if he is aware of the unsatisfied needs and problems of the customers. He should prepare himself by knowing himself and his company, competition and market environment.

b) <u>Prospecting and qualifying</u>

The potential customer is known as a prospect and the method of finding he potential customer is known as prospecting. Prospecting involves a significant amount of time, effort and money. Although the company will give the leads, the salesmen have to develop their own leads. Leads can be developed in the following ways

1. By analyzing telephone directory.
2. Cold canvassing (Dropping Un Announced).
3. Asking current customers for the names of prospects.
4. Cultivating referral sources such as suppliers, dealers, bankers, non competing sales representatives and trade association executives.
5. Joining the organizations to which prospects belong.
   E.g.:- Lions club, Rotary club etc.
6. Engaging in speaking and writing activities that draw attention.
7. Examining data sources (Newspapers, Directories) in search of names.

c) <u>Pre approach</u>

It involves finding out the needs, problems, preferences habits, attitudes, nature and interests of the prospects. The salesman can consult standard sources such as Moody's, standard and poor, Dun and Brad sheet etc. The salesman should set best approach, which might be a personal visit, a phone call, or a letter. The best timing should be thought out because many prospects are busy at certain times and finally the sales presentation strategies are planned.

d) <u>Approach</u>

The initial few minutes of the sales talk are known as the 'approach' to the prospect. The purpose of the talk is to arouse and sustain the customer's attention. Before the talk, the salesman should introduce himself by using the telephone, by obtaining introduction from a customer and by handling his business card. In the first contact, he should attract the attention of the customers. Some popular techniques for his purpose are 1) Reference approach that involves reference of the product by the friends of the prospects, 2) Benefit approach that indicates the benefits of the products, 3) Sample approach that involves giving samples to the prospect and 4) Mutual approach that considers the prospect supreme.

e) Presentation and demonstration

It refers to the presentation of the product to the customer or prospect, a demonstration of its features and benefits to the prospect and showing how the product meets the customer's needs. Companies have developed three different styles of sales presentation. The oldest one is the canned approach which is a memorized sales talk covering the main points. It stimulates the buyer by using right stimulus words, pictures, terms and actions. The formulated approach identifies the needs and buying style and then uses a formulated approach according to the type of the buyer. The need-satisfaction approach starts with a real search for the customer's real needs by encouraging the customer to do most of the talking. This approach calls for good listening and problem solving stills. Sales demonstrations can be improved by using demonstration aids such as booklets, flip charts, slides, movies, audio, video and actual product samples. In a demonstration the salesman can draw five influence strategies

a) Legitimacy : - emphasizing the reputation of his or her company.
b) Expertise : - showing deep knowledge of the buyer's situation and products.
c) Referent power:-building shared characteristics, interests and acquaintances.
d) Ingratiation : - providing personal favors such as a free lunch to strengthen reciprocity.

e) Impression management: - Conveying favorable impressions about him or her.

f) <u>Overcoming and handling objectives</u>

The customers almost always pose objections during presentations or when asked for the order. The resistance can be psychological such as interference, preference for established supply or brands, relevance to give up something, unpleasant associations about other persons, predetermined ideas etc. The resistance can also be logical such as objections to price, delivery schedule or certain product or company characteristics.

To handle these objections, the salesman has to maintain a positive approach, by classifying the objectives with valid reasons and turning objectives into reasons for buying. Experience and training would enable him to deal with the objections satisfactorily.

g) <u>Closing</u>

The sales person should try to close the presentation at the earliest possible moment to avoid the emergence of any reaction to the product. He should be expert enough to close the sales talk at the right moment and including physical actions, statements and comments. Sales person can use of the several closing techniques. The can ask for order, recapitulate the A or B, get the buyer to make minor choices such as colour, size or indicate what the buyer will lose if the order is not placed now.

h) <u>Follow up and Maintenance</u>

Follow up action begins when the prospect signs the order and asks for delivering the salesman arranges for the dispatch and delivery of the product, facilitates grant of credit and reassures the buyer about the wisdom of his decision. This step is necessary to ensure customer satisfaction and repeat business. The sales person has to develop an account maintenance plan to make sure that the customer is not forgotten or lost.

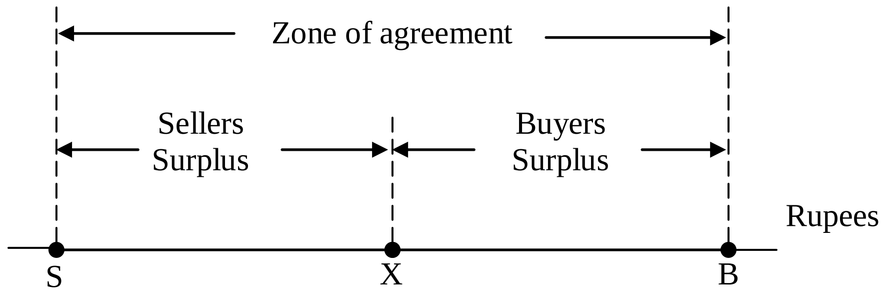
Types of personal selling

The various types of personal selling are negotiation, selling strategy, AIDAS approach, stimulus response approach, and “Buying Formula” Theory of selling.

a) Negotiations:

Personal selling is affected through negotiation to arrive at an agreement on the price and other terms and conditions of sale. In negotiated exchange, price and other terms are set via bargaining behaviour. Although price is the most frequently negotiated issue, other issues include contract completion time, quality of goods and service offered, purchase volume, responsibility of financing, risk taking, promotion and product safety.

Negotiation is appropriate whenever a zone of agreement exits. A zone of agreement exits when there is simultaneously overlapping acceptable outcomes for the parties. The concept is illustrated in the following figure.



Seller’s reservation price
(Seller wants ‘**S**’ or more)
Seller wants to move X
to the right.

Final Contract

Buyer’s reservation price
(Buyer wants ‘**B**’ or more)
Buyer wants to move X
to the left.

The Principled-Negotiation Approach to Bargaining In a research program known as the Harvard Negotiation Project, Roger Fisher and William Ury arrived at four points for conducting “principled negotiations.”

1. Separate the people from the Problem: Because people are involved in the bargaining, it is easy for emotions to become entangled with the objective merits of the issue being negotiated. Framing negotiation issues in terms of the personalities involved rather than the interests of the parties can lead to ineffective bargaining. Negotiation deteriorates when it becomes a test of wills instead of a joint problem solving activity. Separating the people from the problem first involves making accurate perceptions. Each party must understand empathetically the opponent's viewpoint and try to feel the level of emotion with which they hold it. Second, emotions brought into or evolving out of negotiations should be made explicit and acknowledged as legitimate. Openly discussing emotions of both parties while not reacting to an emotional outburst helps keep negotiations from degenerating into unproductive name-calling sessions. Third, clear communications must exist between parties. Listening actively, acknowledging what is being said, communicating about problems rather than the opponent's shortcomings, and directly addressing interests will improve the chances of reaching a satisfactory solution.

2. Focus on Interests, Not Positions: The difference between positions and interests is that one's position is something one decided upon, while one's interests are what caused one to adopt the position. Thus a bargaining position may be that a contract must include a stiff penalty for late shipment; but the party's interest is to maintain an unbroken flow of raw materials. Reconciling interests works better because for every interest there usually exist several possible positions that could satisfy that interest.

3. Invent Options for Mutual Gain: Inventing options for mutual gain involves searching for a larger pie rather than arguing over the size of each slice. Looking for options that offer mutual gain helps identify shared interests.

4. Insist on Objective Criteria: When an opposing negotiator is intransigent and argues his position rather than his inter4est, a good strategy is to insist that the agreement must reflect fair objective criteria independent of the position of either side. By discussing objective criteria instead of stubbornly held positions, neither party is yielding to the other; both are yielding to a fair solution. Such objective criteria may be market value, depreciated book value, competitive prices, replacement costs, wholesale price index, and so on.

<u>Classic Bargaining Tactics</u>

Here are several standard bargaining tactics:

- *Acting Crazy:* Put on a good show by visibly demonstrating your emotional commitment to your position. This increases your credibility and may give the opponent a justification to settle on your terms.
- *Big Pot:* Leave yourself a lot of room to negotiate. Make high demands at the beginning. After making concessions, you'll still end up with a larger payoff than if you started too low.
- *Get a Prestigious:* The ally can be a person or a project that is prestigious. You try to get the opponent to accept less because the person / object he or she will be involved with is prestigious.
- *The well is Dry:* Take a stand and tell the opponent you have no more concessions to make.
- *Limited authority:* You negotiate in good faith with the opponent, and when you're ready to sign the deal, you say, "I have to check with my boss."
- *Whipsaw / Auction:* You let several competitors know you're negotiating with them at the same time. Schedule competitors' appointments with you for the same time and keep them all waiting to see you.
- *Divide and Conquer:* If you're negotiating with the opponent's team, sell one member of the team on your proposals. That person will help you sell the other members of the team.
- *Get Lost / Stall for Time:* Leave the negotiation completely for a while. Come back when things are getting better and try to renegotiate then. Time period can be long (Say you're going out of town) or short (go to the bathroom to think).
- *Wet Noodle:* Give no emotional or verbal response to the opponent. Don't respond to his or her force or pressure. Sit there like a wet noodle and keep a "poker face".
- *Be Patient:* If you can afford to outwait the opponent, you'll probably win big.
- *Let's Split the Difference:* The person who first suggests this has the least to lose.
- *Trial Balloon:* You release your decision through a so-called reliable source before the decision is actually made. This enables you to test reactions to your decision.

- *Surprises:* Keep the opponent off balance by a drastic, dramatic, sudden shift in your tactics. Never be predicable-keep the opponent from anticipating your moves.

b) <u>Selling strategy:</u>

Personal selling operations involve selling strategy and planning. Selling strategy is more effective than negotiation, for it involves determining personal selling objectives, sales policies, formulation of sales strategies, determining the selling appropriation and management of the sales force. Personal selling should have short and long objectives short term objectives are specific and are related to promotional programme and marketing strategy. The long term objectives are broad and general and are related to overall objectives of the company.

The types of customer, viz, industrial, users and consumer users have different needs. Therefore, the sales person has to adopt different sales strategies. The sales management may fix the number of persons required to meet the sales needs on the basis of the present capabilities of the sales force.

c) <u>AIDAS Approach</u>

This approach is very popular in sales. It includes attention, interest, Desire, action and satisfaction. It is a buyers-oriented formula because it emphasizes the customer's needs and problems. According to this approach the first goal is to secure attention approach the first goal is to secure attention of the prospect. For this is the first few minutes of the interview are crucial. The sales person needs ample 'conversational openers' such as favorable comments about prospect's business. The second goal is gaining interest of the prospect. This can be done by finding the selling appeal that is most likely to be effective. This can be obtained from the hints given by the prospects. Prospects interests are affected by basic motivations, closeness, its tiredness, and their mood (receptive, skeptical or hostile) and the sales person must take all the three into account while selecting the appeal to emphasis. The next goal is to kindle desire of the prospect. Here the prospects desire to the ready-to-buy point must be kindled. This can be done by answering to the objections to the prospect's satisfaction.

The fourth goal is to induce an action that is to buy. Buying is not automatic and as a rule, must be induced. Sales person never ask for definite 'yes' or 'no' for the fear of getting 'No'. But it is better to ask for the order straight forwardly. The last goal is to build satisfaction by reassuring the customer that the decision was correct. This is done avoid an anti climax that is foregoing an order.

d) Stimulus-Response model

This model of personal selling has four components. Drives, cues, response and reinforcement. The term drive refers to the strong stimulate the buyer to purchase a particular product. The primary need may be physiological or psychological cues indicate when the prospect or customer will respond to a stimulus. The cues may be product cues, informational cues, activator cues and non-buyer in the latter stage. The triggering cues influence the purchase decision. Price, package and service may be the triggering cues. The salesman has to reinforce the decisions of the buyers to continue to buy his products.

"Everything was right for that sale" sums up the theory. This theory, sometimes called the "situation-response" theory, had its psychological origin in experiments with animals and holds that the particular circumstances prevailing in a given selling situation cause the prospect to respond in a predictable way. If the salesperson succeeds in securing the attention and gaining the interest of the prospect, and if the salesperson presents the proper stimuli or apples, the desired response (that is the sale) will result. Furthermore, the more skilled the salesperson is in handling the set of circumstances, the more predictable is the response.

The set of circumstances includes factors external and internal to the prospect. To use a simplified example, suppose that the salesperson says to the prospect, "Let's go out for a cup of coffee." The salesperson and the remark are external factors. But at least four factors internal to the prospect affect the response. These are the presence or absence of desires: (1) to have a cup of coffee, (2) to have it now, (3) to go out, and (4) to go out with the salesperson.

Proponents of this theory tend to stress external factors and at the expense of internal factors. They seek selling appeals that evoke desired responses. Sales personnel who try to apply the theory experience difficulties traceable to internal factors in many selling situations, but the internal factors are not readily manipulated. This is a seller-oriented theory: it stresses the importance of the salesperson controlling the situation, does not handle the problem of influencing factors internal to the prospect, and fails to assign appropriate weight to the response side of the situation-response interaction.

e) “Buying Formula” Theory of selling

In contrast to the two previous theories, the third emphasizes the buyer’s side of the buyer-seller dyad. The buyer’s needs or problems receive major attention, and the salesperson’s role is to help the buyer find solutions. The theory purports to answer the question: What thinking process goes in the prospect’s mind that causes the decision to buy or not to buy? The buying formula is a schematic representation of a group of responses arranged in psychological sequence. The buying formula theory emphasizes the prospect’s responses (which, of course, are strongly influenced by internal factors) and de-emphasizes the external factors, on the assumption that the salespersons, being naturally conscious of the external factors, will not over look them. Since the salesperson’s normal inclination is no neglect the internal factor, the formula is a convenient way to help the salesperson remember.

The origin of this theory is obscure, but recognizable versions appear in a number of early books on advertising and selling by authors who had experiential knowledge of salesmanship.[13] Several psychologists also advanced explanations similar to the buying formula.[14] The name of “buying formula: was given to this theory by the late E.K.Strong, Jr., and the following step-by-step explanation is adapted from his teaching and writings. Reduced to their simplest elements, the mental processes involved in a purchase are

Need (or problem) → solution → purchase

Because the outcome of a purchase affects the chances that a containing relationship will develop between the buyer and the seller, and because nearly all sales organizations are interested in continuing relationships, it is necessary to add a fourth element. The four elements then are

Need (or problem) ⟶ solution ⟶ purchase ⟶ satisfaction

Whenever a need is felt, or a problem recognized, the individual is conscious of a deficiency of satisfaction. In the world of selling and buying, the solution will always be a product or service or both, and they will belong to a potential seller. In purchasing, then, the element "Solution" involves two parts :(1) product (and/or service) and (2) trade name (name of manufacturer, company, or salesperson).In buying anything, the purchaser proceeds mentally from need or problem to product or service, or trade name, to purchase, and upon using the product or service, he or she experiences satisfaction or dissatisfaction. Thus, the when a definite buying habit has been established, the buying formula is:

Need or problem ⟶ product service and/or trade name ⟶ purchase ⟶ satisfaction/ dissatisfaction

To ensure purchase, the product or service and the trade name (that is, the source of supply) must be considered adequate, and the buyer must experience a (pleasant) feeling or anticipated satisfaction when thinking of the product and/or service and the trade name. In many cases, an item viewed as adequate is also liked, and vice versa, but this is not liked, and some things are liked and bought that are admittedly not as good as competing items. Similar reasoning applies to trade names. Some sources supply are both adequate and liked, others are adequate but not liked; still others are liked but patronized even though they are inadequate compared to competing sources.

With adequacy and pleasant feelings included, the buying formula becomes

Adequacy Adequacy

Need $\rightarrow$ product and/or trade name $\rightarrow$ purchase $\rightarrow$ satisfaction

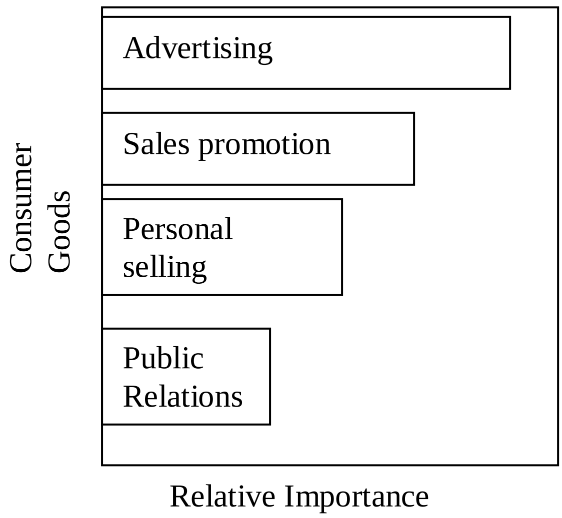
Pleasant feelings Pleasant feelings

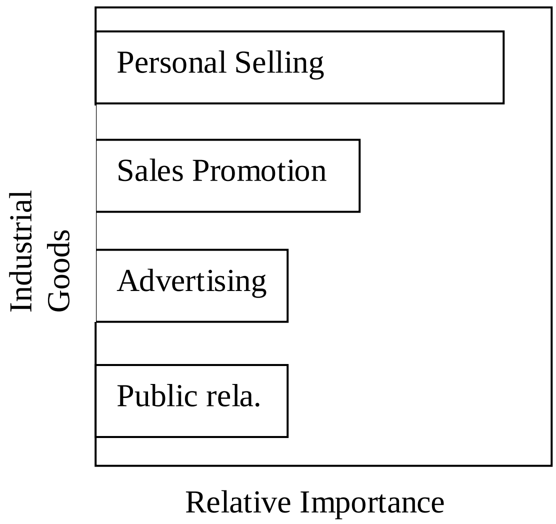
When a buying habit is being established, the buyer must know why the product or service is an adequate solution to the need or problem, and why the trade name is the best one to buy. The buyers also must have pleasant feeling toward the product or service and the trade name. Then, whenever the buyer's buying habit is challenged by a friend's remark, a competing salesperson's presentation, or a competitor's advertisement, the buyers needs reasons to defend the purchase, and in addition, he or she needs a pleasant feeling toward both the product or service and the trade name. All this is represented by the dashed lines in the formula.

The primary elements in a well-established buying habit are those connected by solid lines, on the central line of the formula. Most purchases are made with scarcely a thought as to why, and with the minimum of feeling. And it should be the constant aim of the salesperson and advertiser to form such direct associations. Reasons (adequacy of solution) and pleasant feelings constitute the elements of defense in the buying habit. As long as they are present, repeat buying occurs. The answer to each selling problem is implied in the buying formula, and differences among answers are differences in emphasis upon the elements in the formula. Where the emphasis should be placed depends upon a variety of circumstances. Without going into detail, it may be said that

1. If the prospect does not feel a need or recognize a problem that can be satisfied by the product or service, the need or problem should be emphasized.
2. If the prospect does not think of the product or service when he or she feels the need or recognizes the problem, the association between need or problem and product or service should be emphasized.
3. If the prospect does not think of the trade name when he or she thinks of the product or service, the association between product or service and trade name should be emphasized.
4. If need or problem, product or service, and trade name are well associated, emphasis should be put upon facilitating purchase and use.
5. If competition is felt, emphasis should be put upon establishing in the prospects minds the adequacy of the trade named product or service, and pleasant feelings toward it.
6. If sales to new prospects are desired, every element in the formula should be presented.
7. If more sales to old customers are desired, the latter should be reminded. (Developing new uses is comparable to selling to new customers.

2.2 **<u>The diagram showing the relative importance of personal selling in consumer markets and industrial markets</u>**





Personal selling is more importance in selling industrial goods than selling consumer goods.

Sales force structures

The sales force strategy will have implications for structuring the sales force. If the company sells one product line to one end using industry with customers in many locations, the company would use a territorial sales force structure. If the company sells many products to many types of customers, it might need a product or market sales force structure.

Alternative structures for the sales force

The various alternative structures for the sales force are

a) Territorial structured sales force.
b) Product structures sales force.
c) Market structured sales force.
d) Complex sales force structures.

Territorial Structured Sales force

In the simplest sales organization, each sales representative is assigned an exclusive territory in which to represent the company's full line. This structure has a number of advantages. First it results in a clear definition of the sales person's responsibilities. As the only sales person working the territory, he or she bears the credit or blame fro area sales. Secondly the territorial responsibility increases. Thirdly, travel expenses are relatively small, since the sales representative travels within a small geographical area.

In designing territories, the company seeks certain territorial characteristics such as territories easy to administer; their sales potential easy to estimate; they reduce total travel time and provision of equal worth load and sales potential for each sales representative. These characteristics are achieved through deciding on

i. ***Territory size: -*** Territories can be designed to provide either equal sales potential or equal work load. Territories of equal potential provide each sales representative with the same income opportunities and provide a means for evaluations performance. But because customer density varies by territory, territories with equal potential can vary widely in size. Territories could be equalize the sales workload. By this each representative can cover his or her territory adequately.

ii. ***Territory shape: -*** Many companies prefer a certain territory shape because shape can influence the cost and ease of coverage and sales representatives Job satisfaction. Most common are circular, claver leaf, and wedge shaped territories. Companies nowadays use computers to design sales territory shapes that optimize criteria such as compactness, equalization of work load, or sales potential and minimal travel time.

b)Product structured sales force: -

The importance of sales representatives knowing their products, together with development of product divisions and product management has led companies to structure their sales forces along product lines. Product specialization is particularly warranted where products are technically complex, highly unrelated or very numerous.

c)Market structured sales force: -

Companies often specialize their sales forces along industry or customer lines. Separate sales forces can be setup for different industries or even for different customers. The advantage of market specialization is that each sales force can become knowledgeable about specific customer needs. The major disadvantages of structured sales forces arise when the various type of customers are scattered throughout the country as this requires extensive travel by each sales force.

d) Complex sales force structures : -

When a company sells a wide variety of products to many types of customers over a broad geographical area, if often companies several principles of sales force structure. A sales representative might then report to one or more line managers and staff managers.

Difference between personal selling and Advertising

Personal selling is the most cost-effective tool at later stages of the buying process, particularly in building up buyers' preference, conviction, and action. The reason is that personal selling, when compared with advertising, has three distinctive qualities.

i) Personal confrontation: Personal selling involves an alive, immediate, and interactive relationship between two or more persons. Each party is able to observe each other's needs and characteristics at close hand make immediate adjustments.

ii) cultivation: Personal selling permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to deep personal friends. Effective sales representatives will normally keep their customers' interests at their if they want long term relationships.

iii) Response: Personal selling makes the buyers feel under some obligation for having listened to the sales talk. The buyer has a greater need to attend and respond, even if the response is a polite "thank you".

These distinctive qualities come at a cost. A sales force represents a greater long-term cost commitment than advertising. Advertising can be turned on and off but the size of a sales force is more difficult to alter.

1.13. Sales positions in our economy covered by personal sales men.

Murry devised the following classification of sales positions taken by personal salesmen

i) Deliverer: Positions where the salesperson's job is predominantly to deliver the product (E.g. Milk, oil)

ii) Order taker: positions where the sales person is predominantly an inside order taker (E.g. the Soap sales person calling on super market manager.)

iii) Missionary: Positions where the salesperson is not expected or permitted to take an order but is called on only to build goodwill or to educate the actual or potential user (E.g. The medical "detailer "representing an ethical pharmacy house.)

iv) Technician: Positions where the major emphasis is placed on technical knowledge.

v) Demand creator: Positions that demand the creative sale of tangible products. (E.g. Vacuum cleaners, refrigerators and encyclopedias) or of intangibles (E.g. Insurance, advertising services, or education)

1.14. <u>The variety of selling styles and buying styles</u>

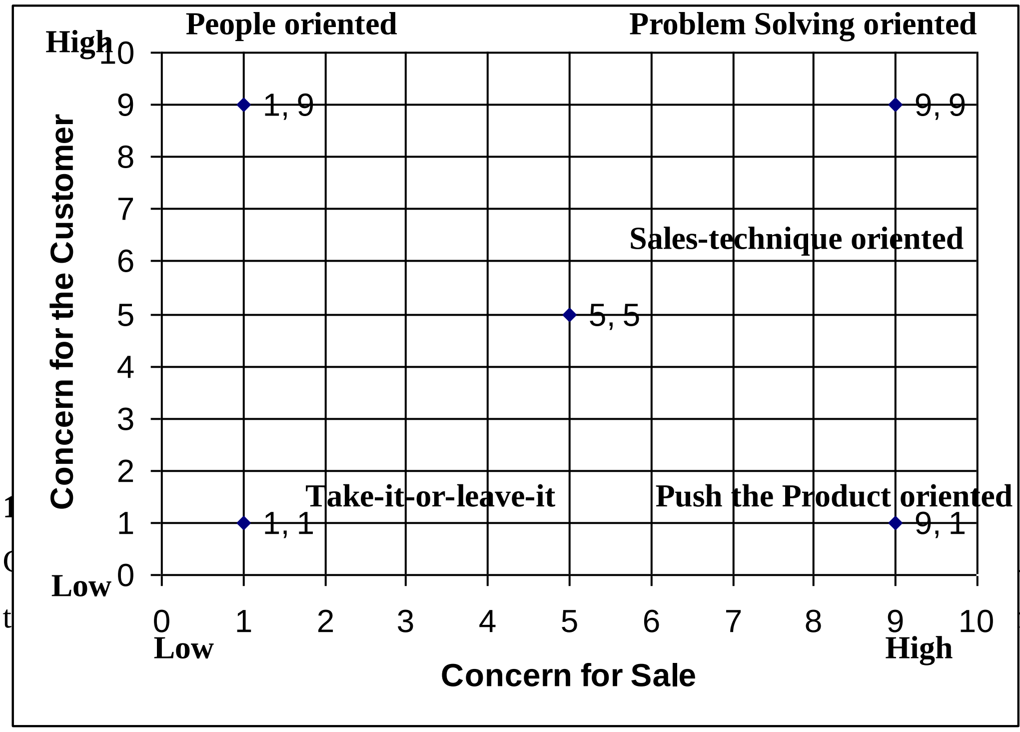
Robert R-Blake and Jane S.Mouton distinguish selling styles along two dimensions, the sales person's concern for the sale and concern for the customer. These two dimensions give rise to the following sales grid, which describes five styles of selling.

1. Type (1, 1) the order taker
2. Type (9, 1) the hard seller
3. Type (5, 5) the soft seller
4. Type (1, 9) the sell myself and
5. Type (9, 9) the problem solving mentality.

Blake and mouton argue that no one selling styles effective with all buyers. Furthermore, buying styles are just as varied. Buyers vary in their concern for the purchase and concern for the sales person. Some buyers couldn't care less; some are defensive; some will only listen to salespersons from well-known companies. Effective selling depends on matching the seller's style to the buyer's style. Franklin B. Evans sees selling as a dyadic process, where the outcome depends on the match of buyer and seller characteristics as well as on buying and selling styles.

(1, 9)	People oriented (Sell myself)	-	I am the customer's friend. I want to understand him and respond to his feeling and interests so that he will like me. It is

		the personal bond that leads him to purchase from me.
(9, 9)	Problem solving oriented - (Problem Solver)	I consult with the customer so as to inform myself of all the needs, in his situation that my product can satisfy. We work toward a sound purchase decision on his part, which yields he expects from it.
(5, 5)	Sales-technique oriented - (Soft seller)	I have tried-and-true routine for getting a customer to buy. It motivates him through a blended "Personality and product emphasis.
(1, 1)	Take-it-or-leave-it - (Order taker)	I place the product before the customer and it sells itself.
(9, 1)	Push-the-product oriented- (Hard Seller)	I take charge of the customer and hard-sell him, piling on all the pressure it takes to get him to buy.



to obtain sales from existing customers whose habits and patterns of thought are already conducive to such sales. Developmental selling, in other words, seeks to create customers out of people who do not currently view the salesperson's company favorably, and who likely are resistant to changing present sources of supply.

Different sales positions require different amounts and kinds of service and developmental selling. Mc Murry and Arnold classify positions on a spectrum ranging from the very simple to the highly complex. They categorize sales positions into three mutually exclusive groups each containing subgroups, a total of nine subgroups in all:

Group A (service selling)

1. *Inside Order Taker* – "waits on" customers; for example, the sales clerk behind the neckwear counter in a men's store.
2. *Delivery Salesperson* – mainly engages in delivering the product; for example, person delivering milk, bread, or fuel oil.
3. *Route or Merchandising Salesperson* – operates as an order taken but works in the field-the soap or spice salesperson calling on retailers in typical.
4. *Missionary* – aims only to build goodwill or to educate the actual or potential user, and is not expected to take an order; for example, the distiller's "missionary" and the pharmaceutical company's "detail" person.
5. *Technical Salesperson* – emphasizes technical knowledge ; for example, the engineering salesperson, who is primarily a consultant to "client" companies.

Group B (developmental selling)

6. *Creative Salesperson of Tangibles* – for example, salespersons selling vacuum cleaners, automobiles, siding, and encyclopedias.
7. *Creative Salesperson of Intangibles*- for example, salesperson selling insurance, advertising services, and educational programs.

Group C (basically developmental selling, but requiring unusual creativity)

8. *"Political," "Indirect," or "Back-Door" salesperson* –sells big ticket items, particularly commodities or items with no truly competitive

features. Sales are consummated through rendering highly personalized services (which have little or no connection with the product) to key decision makers in customer's organization; for example, the salesperson who lands large orders for flour from baking companies by creating to key buyer's interests in fishing, golfing, blondes, or the like.

9. *Salesperson Engaged in Multiple Sales* – involves sales of big ticket items where the salesperson must make presentations to several individuals in the customer's organization, usually committee, only one of which can say "yes," but all of whom can say "no,"; for example, the account executive of an advertising agency who makes presentations to the "agency selection committees" of advertisers – even after the account is obtained, the salesperson has to work to retain it.

The more developmental selling required in a particular sales job and the more complex it is, the harder it is to make sales. The amount and kind of developmental selling depends upon the natures of prospects and customers, on the on hand, and the nature of products, on the other hand. The easiest sales are self –service sales: customers know their needs, know the products capable of satisfying these needs, sell themselves, and go through the checkout line. The most difficult sales require developmental selling *and* creativity – where sometimes the sales must be made on something other than the product's merit, or "multiple" sales are necessary to get the order, and where continual effort is required to keep the account.

1.16.TYPES OF PERSONAL-SELLING OBJECTIVES

The qualitative personal-selling objectives are long term and concern the contributions management expects personal selling to make in achieving long-term company objectives. These objectives generally are carried over from one period's promotional programs to the next. Depending upon company objectives and the promotional mix, personal selling may be assigned such qualitative objectives as

1. To do the entire selling job (as when there are no other elements in the promotional mix).
2. To "Service" existing accounts (that is, to maintain contacts with present customers, take orders, and so forth).
3. To search out and obtain new customers.
4. To secure and maintain customer's cooperation in stocking and To keep customers informed on changes in the product line and other aspects of marketing strategy.
5. To assist customers in selling the product line (as through "missionary selling").
6. To provide technical advice and assistance to customers (as with complicated products and where products are especially designed to fit buyers' specifications).
7. To assist with (or handle) the training of middlemen's sales personnel.
8. To assist with the training of middlemen's sales personnel.
9. To provide advice and assistance to middlemen on management problems.
10. To collect and report market information of interest and use to company management.

The basic considerations in setting qualitative personal-selling objectives are decisions on sales policies and personal –selling strategies and their role in the total promotional program. After the role is defined, qualitative long-term personal-selling objectives are set. In turn, the qualitative personal-selling objectives become the major determinants of the quantitative personal selling objectives. The quantitative objectives assigned to personal selling are short term and are adjusted from one promotional period to another. The sales volume objective-the dollar or unit sales volume management sets as the target for the promotional period-is the key quantitative objective. All other quantitative personal-selling objectives derive from or are related to the sales volume objective. Thus, discussion here focuses upon the setting of sales volume objectives. Setting selling objectives, among them the following.

1. To capture and retain a certain market share.

2. To obtain sales volume in ways that contributes to profitability (for example, by selling the "optimum" mix of company products).
3. To obtain some number of new accounts of given types.
4. To keep personal – selling expenses within set limits.
5. To secure targeted percentages of certain accounts business.

1.18.SOME IMPORTANT TERMS

Market Potential.

A market potential is an estimate of the maximum possible sales opportunities present in a particular market segment and open to all sellers of a good or service during a stated future period. Thus, an estimate of the maximum number of low priced pocket cameras that might be sold in Sam Mateo County, California, during the calendar year 1987 by all sellers competing for this market would represent the 1987 San Maeto County market potential for low priced pocket cameras. A market potential indicates how much of a particular product can be sold to a particular market segment over some future period, assuming the application of appropriate marketing methods.

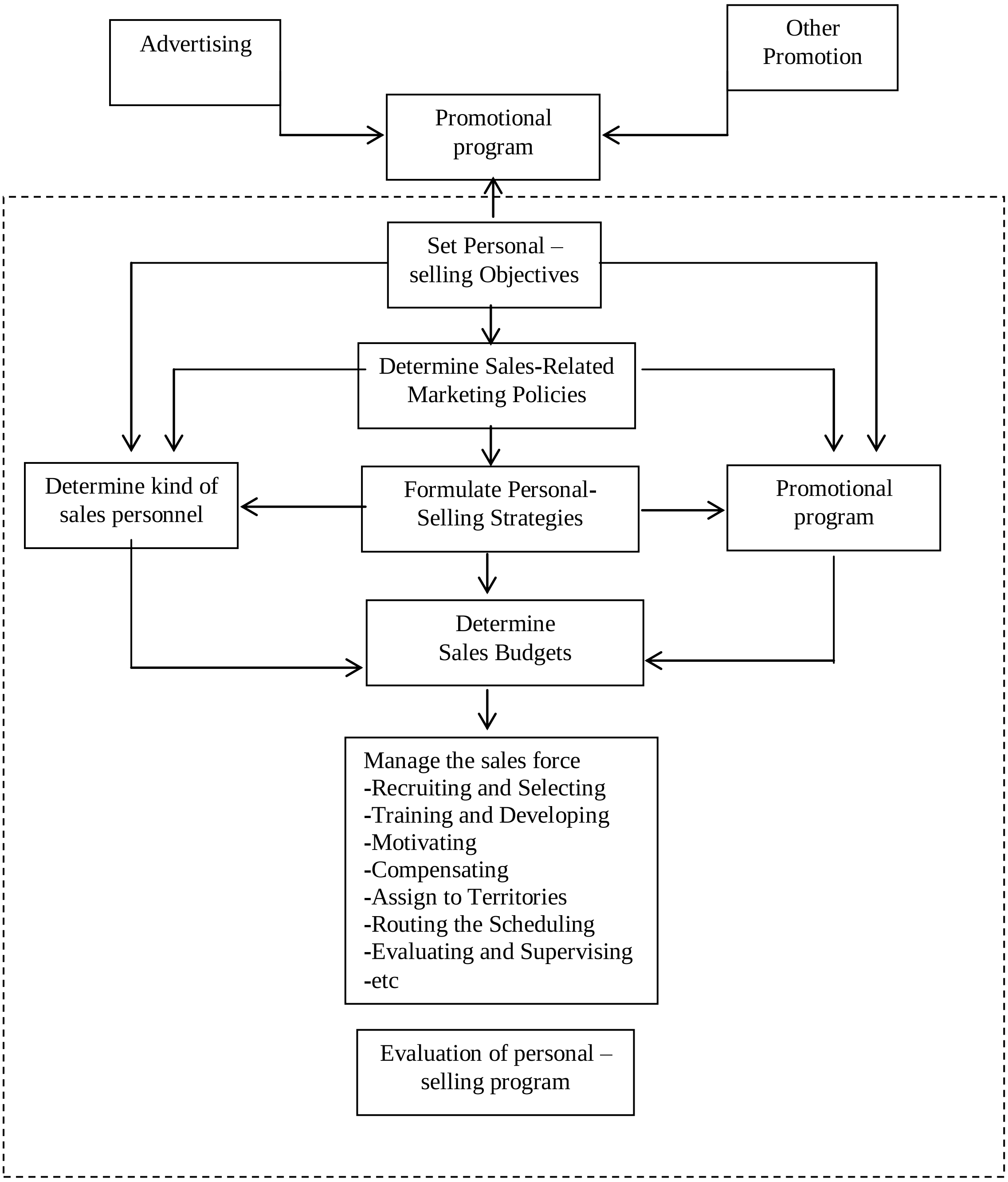
Sales Potential.

A sales potential is an estimate of the maximum possible sales opportunities present in a particular market segment open to a specified company selling a good or service during a stated future period. To illustrate, an estimate of the number of low-priced pocket cameras that might be sold in San Mateo County, California, during the calendar year 1987 by the Eastman Kodak Company would be the 1987 San Mateo County sales potential for Eastman Kodak low price pocket cameras. A sales potential represents sales opportunities available to a particular manufacturer, such as to Eastman Kodak Company, while a market potential indicates sales opportunities available to an entire industry.

Sales Forecast

A sales forecast is an estimate of sales, in dollars or physical units, in a future period under a particular marketing program and as assumed set of economic and other factors outside the unit for which the forecast is made. A sales forecast may for a single product or for an entire product line. It may be for a manufacturer's entire marketing area, or for any subdivision of it. Such forecasts are short-term, or operating, sales forecasts rather than long-range sales forecasts, which are used for planning production capacity and for long-run financial planning. Long –range sales forecasts, although of interest, are so tentative that sales planners give them only passing attention. It is the short-term, or operating, sales forecast that is important to the ales executive. Keep in mind, then, that an operating sale forecast that is important to the sales executive. Keep in mind, then, that an operating sales forecast is a prediction of how much of a company's particular product (or product line) can be sold during a future period under a given marketing program and as assumed set of outside factors.

1.17 Figure showing Personal Selling as part of the promotional Program.



1.19.ANALYZING MARKET POTENTIAL

Market Identification

The first step in analyzing a product's market potential is to identify its market. Market identification requires finding out

1. Who buys the product?
2. Who uses it?
3. Who are the prospective buyers and/or users?

Some companies find answers to these questions in their internal records, but most companies, especially those that use long marketing channels, must use field research to obtain meaningful answers. In consumer goods marketing, buyers, users, and prospects are identified and classified according to such characteristics as age, sex, education, income, and social class. In industrial – goods marketing, buyers, users, and prospects are identified and classified by size of firm, geographical location, type of industry, and the like.Market indemnification studies reveal the characteristics that difference the market segments making up the product's market potential. Frequently they un through redirecting personal selling effort or changing promotional strategy. Some times, market identification studies provide, as a side result, consumer data on such factors as purchase frequency, searching time expended unit of purchase, and seasonal buying habits. When assembled and analyzed, these data helping estimating market potential.

Market motivation

The second step in analyzing market potential is to detect the reasons why customers buy the product and the reasons why potential customers might buy it. Market motivation studies answer twin questions: why do people buy? Why don't people buy? The answers help not only in estimating market potential but assist the sales executive seeking to increase the effectiveness of promotional programs. Motivation research techniques vary, but the most widely used are the projective techniques, in which respondents project themselves, their attitudes, interests, and opinions into interpretations of special materials presented by the researcher. Analysis of results by trained specialists lays bare what goes on in buyer's minds, including, importantly, the real reasons for buying or not buying the product. Most motivation studies are directed toward explaining the buying behavior of ultimate consumers rather than industrial users. Information from motivation studies helps not only in estimating a product's market potential but assists in deciding

1. How best to present the product in sales talks.
2. The relative effectiveness of different selling appeals.
3. The relative appropriateness of various promotional methods.

Analysis of Market Potential

Having identified the potential buyers and their buying behavior, the third step is to analyze the market potential. Generally, market potential cannot be analyzed directly, so analysis makes use of market factors (a market factor is a market future or characteristic related to the product's demand). For instance, the number of males reaching shaving age each year is one market factor influencing the demand for men's electric shavers. But not every male reaching shaving age is a prospective buyer of an electric shaver-some will be late in starting to shave, others will adopt other shaving methods, some will not have the money to buy a shaver or will prefer to use that money for something else, and still others will use borrowed shavers or, perhaps, will grow beards. Thus, using market factors for analyzing market potential is a two-step process:

1. Select the market factor(s) associated with the product's demand.
2. Eliminate those market segments that do not contain prospective buyers of the product.

1.20. MARKET INDEXES

A market index is a numerical expression indicating the degree to which one or more market factors associated with a given product's demand is present in a given market segment-usually a given geographical market segment. Market indexes are expressed in relative terms, such as in percentages, rather than in absolute numbers. In analyzing the market for furniture, for example, a market index might contain three factors: population, effective buying income, and number of marriages. In the United States, the most widely used single-factor market indexes are population as a percentage of U.S. total and effective buying income as a percentage of U.S. total. Many companies refine these indexes further by breaking them down into greater detail; for example, the population index is divided into sub indexes covering different age groups and the income index into sub indexes for different income groups.

Sales and Marketing Management, a trade publication for sales executives, publishes annually an issue giving Buying Power Index (BPI) data state, county, city, metropolitan area, and even by the suburban components of metropolitan areas. The BPI combines effective buying income, retail sales, and population into single index using weighting of factors of 5 for income, 3 for retail sales, and 2 for population. The particular combination and weighting of market factors serves as a satisfactory measure of market potential for many consumer-products marketers.

Other marketers construct their own market indexes, including different market factors and using different weighting systems. One producer of lighting fixtures includes data on new housing starts, and a maker of auto seat covers includes motor vehicle registrations. Other market factors frequently used in constructing consumer-goods market indexes are registrations of new automobiles, home ownership, marriage licenses issued, births, and deaths. Marketers of industrial products construct market indexes using such market factors as value added by manufacture, number of employees engaged in certain kinds of manufacturing number of manufacturing establishments, person-hours worked, total value of shipments of particular items, and capital expenditures for new plant and equipment.

1.21. SALES POTENTIAL AND SALES FORECASTING

Sales potentials, as defined earlier, are quantitative estimates of the maximum possible sales opportunities present in particular market segments open to a specified company selling a good or service during a stated future period. They are derived from market potential after analyses of historical market's share relationships and adjustments for changes in companies and competitors selling strategies and practices.

A firm's sales potential and its sales forecast are not usually identical in most instances, the sales potential is larger than the sales forecast. There are several reasons for this: some companies do not have sufficient production capacity to capitalize on the full sales potential ; others farms have not yet developed distributive networks capable of reaching every potential customer; others do not attempt to realize their total sales potential because of limited financial resources; and still others being more profit oriented than sales oriented, seek to maximize profitable sales and not possible sales. The estimate for sales potential indicates how much a company could sell if it had all the necessary resources and desired to use them. The sales forecast is a related but different estimate-it indicates how much a company with a given amount of resources can sell if it indicates how much a company with a given amount of resources can sell if it implements a particular marketing program.

1.22. SALES FORECASTING METHODS

A sales forecasting method is procedure for estimating how much of a given product (or product line) can be sold if given marketing program is implemented. No sales forecasting method is foolproof –each is subject to some error. Some methods are unsophisticated, such as the jury of executive opinion or the poll of sales force opinion. Others involve the application of sophisticated statistical techniques, such as regression analysis or econometric model building and simulation. Two sales forecasting methods may be either sophisticated or unsophisticated, depending upon how they are used-the projection of past sales and survey of customer's buying plans.

Well-managed companies do not rely upon single sales forecasting method but use several. If different methods produce roughly the same sales forecasts, then more confidence is placed I the results. But if different methods produce greatly different sales forecasts, then the sales situation merits further study.

a. Jury of Executive Opinion

There are two steps in this method: (1) high – ranking executives estimate probable sales, and (2) an average estimate is calculated. The assumption is that the executives are well informed about the industry outlook and the company's market position, capabilities, and marketing program. All should support their estimates with factual material and explain their rationales.

Companies using the jury of executive opinion method do so for one or more of four reasons:

1. This is a quick and easy way to turn out a forecast.
2. This is a way to pool the experience and judgment of well-informed people.
3. This may be the only feasible approach the company is so young that it has not yet accumulated the experience to use other forecasting methods.
4. This method may be used when adequate sales and market statistics are missing or when these figures have not yet been put into the form required for more sophisticated forecasting methods.

The jury of executive opinion method has weaknesses. Its findings are based primarily on opinion, and factual evidence to support the forecast is often sketchy. This approach adds to the work load of key executive s requiring them to spend time that they would otherwise devote to their areas of main responsibility and a forecast made by this method is difficult to break down into estimates of probable sales by products, by time intervals by markets, by customers, and so on.

b. The Delphi technique. Several years ago researchers at the Rand Corporation developed a technique for predicting the future that is called the Delphi technique. This is a version of the jury of executive opinion method in which those giving opinions are selected for their "expertise." The panel of experts responds to a sequence of questionnaires in which the responses tone questionnaires are used to produce the nest questionnaire. Thus information available to some and not to other experts is disseminated to all, enabling all to base their final forecasts on "all available information. Some contend, "This technique eliminates the band wagon effect of majority opinion."

c. Poll of Sales Force Opinion

In the poll of sales force opinion method, often tagged "the grass – roots approach," individual sales personnel forecast sales for their territories; then individual forecasts are combined and modified, as management thinks necessary, to form the company sales forecast. This approach appeals to practical sales managers because forecasting responsibility is assigned to those who produce the results. Furthermore there is merit in utilizing the specialized knowledge of those in closest touch with market conditions. Because the sales people help to develop the forecast, they should have greater confidence in quotas based upon it another attractive feature is that forecasts developed by this method are easy to break down according to products, territories, customers, middlemen, and sales force. But the poll of sales force opinion approach has weaknesses. Not generally trained to do forecasting, and influenced by current business conditions in their territories salespersons tend to be overly optimistic or overly pessimistic about sales prospects. They are too near the trees to see the forest they often are unaware of broad changes taking place in the economy and of trends in business conditions outside their own territories. Further more, if the" forecasts" of the sales staff are used in setting quotas, some sales personnel deliberately underestimate so that quotas are reached more easily.

To some extent, the weaknesses of this method can be overcome through training the sales force in forecasting techniques, by orienting them to factors influencing company sales, and by adjusting for consistent biases in individual salespersons' forecasts. For most companies, however, implanting corrective actions is an endless task, because sales personnel turnover is constantly going on, and new staff members (whose biases are unknown at the start) submit their this method is based to such a large extent on judgment that it is not appropriate for most companies to use it as the only forecasting method. The poll of sales force opinion serves best as a method of getting an alternative estimate for use as a check on a sales forecast obtained through some other approach.

d. Projection of past sales

The projection of past sales method of sales forecasting takes a variety of forms. The simplest is to set the sales forecast for the coming year at the same figure as the current year's actual sales, or to a moving average of the sales figures for several past years. For instance, if it is assumed that there will be the same percentage sales increase next year as this year, the forecaster might utilize a naïve model projection such as

$$\textbf{Next year's sales} = \textbf{this year's sales} \times \frac{\textbf{This year's sales}}{\textbf{Last year's sales}}$$

This year's sales are inevitably related to last year's similarly, next year's sales are related to this year' sand to those of all preceding years. Projecting present sales levels is a simple and inexpensive forecasting method and maybe appropriate for companies in more or less stable or “mature” industries- it is rare in such industries for a company’s sales to vary more than 15 percent plus or minus from the preceding year.

1. Time-series analysis. Not greatly different n principle from the simple projection of past sales is time –series analysis, a statistical procedure for studying historical sales data. This procedure involves isolating and measuring four chief types of sales variations: long –term trends, cyclical changes, seasonal variations, and irregular fluctuations. Then a mathematical model describing the past behavior of the series is selected assumed values for each type of sales variation are inserted ,and the sales forecasts is “cranked out.” For most companies, time-series analysis, practical application mainly in making long-range forecasts. Predictions on a year-to –year basis, such as are necessary for an operating sales forecast, generally are little more than approximations. Only where sales patterns are clearly defined and relatively stable from sales forecasts

One drawback of time-series analysis is that it is difficult to ”call the turns.” Trend and cycle analysis helps in explaining why a trend, once under way, continues, but predicting the turns often is more important. When turns for the better are called correctly, management can capitalize upon sales opportunities; when turns for the worst are called correct management can cut losses.

2. Exponential smoothing. One statistical technique for short-range sales forecasting, exponential smoothing, is a type of moving average that represents a weighted sum of all past numbers in a time series, with the heaviest weight placed on the most recent data. To illustrate, consider this simple but widely used form of exponential smoothing-a weighted average of this year’s sales is combined with the forecast of this year’s sales to arrive at the forecast for next year’s sales. The forecasting equation, in other words, is

Next year’s sales = *a* (this year’s sales) + (1-a) (this year’s forecast)

The a in the equation is called the “smoothing constant” and is set between 0.0 and 1.0 if, for example, actual sales for this year came to 320 units of product, the sales forecast for this year was 350 units, and the smoothing constant was 0.3, the forecast for next year’s sales is

(0.30)(320) + (0.7) (350) = 341 units of products.

Determining the value of ‘a’ is the main problem. If the series of sales data changes slowly, a should be small to retain the effect of earlier observations. If the series changes rapidly, ‘a’ should be large so that the forecasts respond to these changes. In practice, a is estimated by trying several values and making retrospective forecast error is then chosen for future smoothing.

Evaluation of past sales projection methods. The key limitation of all past sales projection methods lies in the assumption that past sales history is the sole factor influencing future sales. No allowance is made for significant changes made by the company in its marketing program or by its competitors in theirs. Nor is allowance made for sharp and rapid upswings or downturns in business activity, nor is it usual to correct for poor sales performance extending over previous periods.

The accuracy of the forecast arrived at through projecting sales depends largely upon how close the company is to the market saturation point. If the market is nearly 100 percent saturated, some argue that it is defensible to predict sales by applying a certain percentage figure to “cumulative past sales of the product still in the hands of users” to determine annual replacement demand. However, most often the company whose product has achieved nearly 100 percent market saturation finds, since most companies of this sort market durables or semi durables, that its prospective customers can postpone or accelerate their purchase to considerable degree. Past sales projection methods are most appropriately used for obtaining “check” forecasts against which forecasts secured through other means are compared. Most companies make some use of past sales projections in their sales forecasting procedures. The availability of numerous computer programs for time-series analysis and exponential smoothing has accelerated this practice.

e. Survey of customers' buying Plans

What more sensible way to forecast than to ask customers about their future buying plans? Industrial marketers use this approach more than consumer good marketers, because it is easiest to use where the potential market consists of small numbers of customers and prospects, substantial sales are made to individual accounts, the manufacturer sells direct to users, and customers are concentrated in a few geographical areas (all more typical of industrial than consumer marketing). In such instances, it is relatively inexpensive to survey a sample of customers and prospects to obtain their estimated requirements for the product, and do project the results to obtain a sales forecast. Survey results, however, need tempering by management's specialized knowledge and by contemplated changes in marketing programs. Few companies base forecasts exclusively on a survey of customers' buying plans. The main reason lies in the inherent assumptions that customers know what they are going to do and that buyers plans, once made, will not change.

Even though the survey of customers' buying plans is generally an unsophisticated forecasting method, it can be rather sophisticated-that is, if it is a true survey(in the marketing research sense) and if the selection of respondents is by probability sampling. However, since it gathers opinions rather than measures actions, substantial non sampling error is present. Respondents do not always have well –formulated buying plans, and, even if they do, they are not always willing to relate them. I practice, most companies using this approach appear to pay little attention to the composition of the sample and devote minimum effort to measuring sampling and non sampling errors.

f) Regression Analysis

Regression a analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sale and other variables. It involves fitting an equation to explain sales fluctuations in terms of related and presumably causal variables, substituting for these variables values considered likely during the period to be forecasted, and solving for sales. In other words there are three major steps in forecasting sales through regression analysis:

1. Identify variables causally related to company sales.
2. Determine or estimate the values of these variables related to sales.
3. Derive the sales forecast from, these estimates.

Computers make it easy to use regression analysis for sales forecasting. One tire manufacture, for instance, used simple regression analysis to determine the association between economic variables and its own sales. This company discovered that a positive correlation existed between gross national product and its own sales, but the correlation coefficient was too low to use in forecasting company sales .the same was true of personal disposable income and retail sales; their correlation coefficients with company sales were too low to use in forecasting company sales. The tire manufacturer measured the relation ship between its own dollar sales and unit sales of automobiles and found a much higher degree of correlation.

Where sales are influenced by two or more independent variables acting together, multiple regression analysis techniques are applied. To illustrate, consider this situation. An appliance manufacture is considering adding an automatic dishwasher to its line and decides to develop a forecasting equation for industry sales of dishwashers from published sources, such as the *statistical abstract of the United States,* data are collected on manufacturers' sales of dishwashers for a period of twenty years (the dependent variable). Also collected are data on four possible independent variables:

1. The Consumer price Index for durables.
2. Disposable personal income deflated by the consumer price Index.
3. The change in the total number of households.
4. New no farm housing starts.

Then, the analysts use stepwise multiple linear regressions to estimate the relationship among the variables. If close associations exist between company sales abs a reliable barometer, estimates are improved by experts' predictions of probable changes in the barometer. However, one danger in using regression analysis is that forecasters may put too much faith in the statistical output. They may abandon independent appraisals of future events because of a statistically developed forecast. It is wise to check results with those of other forecasts.

g) Econometric Model Building and Simulation

Econometric model building and simulation is attractive as a sales forecasting method for companies marketing durable goods. This approach uses an equation or system of equations to represent a set of relationships among sales and different demand determining independent variables. Then, by "plugging in" values (or estimates) for each independent variable (that is, by "simulating" the total situation), sales are forecast. An econometric model (unlike a regression model) is based upon an *underlying theory* about relation ships among a set of variables, and parameters are estimated by statistical analysis of past data. An econometric sales forecasting model is an abstraction of a real –world situation, expressed in equation form and used to predict sales. For example, the sales equation for a durable good can be written.

S = R + N Where S = total sales

R= replacement demand (purchases made to replace product units going out of use, as measured by the scrap page of old units)

N = new-owner demand (purchases made not to replace existing product

Units, but to add to the total stock of the product in users' possession)

Total sales to a durable good, in other words, consist of purchases made to replace units that have been scrapped and purchases by new owners. Thus, a family that has a five –year-old machine trades it in to a dealer as part payment for a new machine a becomes part of the replacement demand (although only effectively so when the five-year-old machine, perhaps passing through several families' hands in the process, finally comes to be owned by a family that goes ahead and consigns its even-older machine to the scrap heap).

Replacement demand is measured by the scrap page of old units of products ,that is, by the percentage of the total stock of the product in users' hands that is taken out of service through consignment to the trash pile, by sale to a junk dealer , or merely being stowed away and never used again. Replacement demand in any one year does not include demand originating from the family that had a five-year-old machine that it traded to a dealer for a new machine with the dealer reselling the old machine to another family who buys it second hand. Only when a particular machine goes completely out of service is it regarded as scrapped, and, at that time (through a chain of purchased and trade ins) some family becomes a part of replacement demand. Econometricians estimate replacement demand using life expectancy of survival tables, which are similar to the life (or mortality) tables used by life insurance actuaries shown below

<u>Figure showing Durable goods Survival Coefficients</u>

(Maximum Service Life: 11 Years; Average Service Life: 6.5 years)

Year	Survival / coefficient
1.	1.0000
2.	0.9995
3.	0.9946

4.	0.9656
5.	0.8621
6.	0.6406
7.	0.3594
8.	0.1379
9.	0.0344
10.	0.0054
11.	0.0000

If some durable good has a maximum service life al eleven years and 10,000 units of the good enter service in some year, the table indicates that five years later, 8,621 will probably still be in service and ten years later54. For this batch of 10,000 product units, scrap page is 1,035 in the fifth year (that is1, 379-344, the difference between the accumulated total scrap page at the close of the fifth and fourth years respectively) in the fifth year, then 1,035replacementsales trace back to the batch of 10,000 product units that entered service five years before.

New-owner demand is the net addition to users 'stocks of the product that occurs during a given period. for instance if 2,000,000 units of some appliance were in service at the start of a period and 2,500,000 at the end, new-owner demand was500, 000 during the period forecasting the number of sales to new owners involves treating the stock of the product in the hands of users as a "population" exhibiting "birth" and "death" characteristics, that is thinking of it as being analogous to a human population. Constructing this sort of econometric model requires going through three steps.

First, study independent variables affecting each demand category (replacement and new owner) and choose for correlation analysis those that bear some logical relationship to sales (the dependent variable). Second, detect that combination of independent variables that correlates best with sales. Third, choose a suitable mathematical expression to show the quantitative relationships among the independent variable and sales, the dependent variables. This expression becomes the econometric model.

The procedure for building econometric models is simple, but finished models can take on formidable appearances. Consider, for example, this econometric model for forecasting sales of washing machines.

$$\boldsymbol{S_{tc} = Y_t - y_t + Y_t \left\{ H_t \left[(0.03 - 0.0157) \left| \frac{(I_t + 3C_t)\,P_t}{10^{\,0.01818t-33.1143}} \right| \right] -0.0000283y_t \right\}}$$

where

S_{tc} = calculated value for forecasted sales of washing machines during some time period.
Y_t = level consumer's stock of washing machines in any period (as of January I)
y_t = level of consumers stock that would occur in the following period (as of January I) if no washing machines were sold and scrap page rates remained the same
H_t = number of wired (i.e., electrified) dwelling units, in millions
I_t = disposable personal income
C_t = net credit extended (excluding credit extended for *Automobiles*)
P_t = price index for housing furnishings
$10^{\,0.01818t-33.1143}$ = trend of real purchasing power over time
$(I_t + 3C_t)\,P_t$ = real purchasing power

Thus, new-owner demand in this model is represented by = $Y_t - y_t$ determined by applying appropriate survival coefficients to previous year's sales of washing machines and estimating consumer's total stock of washing machines in each year. Replacement demand is represented by the other *symbols* in the equation and takes into account the number of wired dwelling units (washing machines are not sold to people who live in homes with no electricity),real purchasing power (disposable personal income plus credit availability divide by a price index), and real purchasing power adjusted for the historical trend. Regression analysis was used to derive the numerical values in this model.

Econometric model building seems a nearly ideal way to forecast sales. Not only does it consider the interaction of independent variables that bear logical and measurable relationships. Econometric models, however, are best used to forecast industry sales, not the sales of individual companies. This is because the independent variables affecting an individual company's sales are more numerous and more difficult to measure than are those determining the sales of an entire industry. Many companies use an econometric model to forecast industry sales, and then apply an estimate of the company's share – of-the market percentage to the industry forecast to arrive at a first approximation for the company's forecasted sales.

1.22. CONVERTING INDUSTRY FORECAST TO COMPANY SALES FORECAST

Many companies forecast both their own sales and sales of the industry. Of those using multimethod forecasting procedures, nearly all-at one or more stages-provide for the making of an industry sales forecast. In fact, of the six sales forecasting methods discussed in this chapter, only in two-the poll of sales force opinion and unsophisticated forms of projecting past sales directly. The general practice is to forecast industry sales early in the procedure and from it derive a company sales forecast for use as a check against forecasts arrived at through other methods.

Deriving a company sales forecast from an industry sales forecast requires an appraisal of company strengths and weaknesses (as well as marketing programs) against those of competitors. The result is an estimate of expected market share that (when applied to the industry sales forecast) of the industry. Of those using multimethod forecasting procedures, nearly all-at one or more stages-provide for the making of an industry sales forecast. In fact, of the six sales forecasting methods discussed in this chapter, only in two-the poll of sales force opinion method level this appraisal up to the sales personnel –they focus on estimating how much the company can sell, not on how much the industry can sell. Unsophisticated forms of the past sales projection method implicitly assume that no changes will occur in the company's strengths and weaknesses nor in its marketing programs vis-à-vis those of its competitors. In other four forecasting methods considered in this chapter, management makes this appraisal when it determines the company's probable market share percentage. Moreover although some companies check such appraisals with the sales personnel, in most the main appraisal of competitive position is made by executives better informed on the overall sales outlook than any sales person can be.

Fore casting a company's market share varies in complexity from one industry to another. In the steel industry, the number of competitors is small and market share is stable, so determining a given company's market share is a simple task –a matter of projecting past trends and adjusting for anticipated changes in the company's relative strengths and weakness. But in the women's clothing industry, the number of competitors is large and market shares fluctuate widely, so determination of market share is difficult. The ability to evaluate a clothing style's salability is a key element in forecasting, and this requires both through knowledge of market trends and keen judgment. Most companies operate in industries that lie some where between these two extremes, with market shares neither as stable as in steel nor volatile as in women's apparel. Forecasts in most companies need information on competitors' plans to launch new and improved products, advertising and selling plans, pricing strategies and so on. When forecasters evaluate this information in relation to their own company's proposed marketing and selling plans, they are in a position to exercise informed judgment in predicting the company's probable market share. If, for example, a forecaster knows that a major competitor plans a substantial price cut on a product that many buyers buy mainly on the basis of price, it will be necessary to lower the estimate of the company's market share unless management is wiling to match the price cut. Forecasting company's market share is a matter both of examining past trends and of appraising impending changes I competitive relationships.

1.23.DERIVATION OF A SLAES VOLUME OBJECTIVE

A sales volume objective for the coming operating period is the hoped-for out come of a company's short-range sales forecasting procedure. A sales forecast (1) contains an estimate of sales tried to a proposed marketing plan or program and (2) assumes a particular sat of economic and other forces outside the unit for which the forecast is made. The sales forecast estimate does not necessarily become the company's sales volume objective, but it provides as orientation point for management's thinking. Further adjustments in the sales forecast estimate are necessary whenever management decided to alter its marketing plan or program or changes occur in competitor's marketing strategies.

The sales volume objective should be consistent with management's profit aspirations and the company's marketing capabilities. It must be attainable at costs low enough to permit the company to reach it s net profit objective, and the company's marketing forces (that is its sales force, the advertising program, the dealer organization, and so on) must be capable of reaching the objective set. All three items-the sales volume objective, management's profit objective, and the company's marketing capabilities-are interrelated. Using the sales estimate in the sales forecast as a point of departure, management juggles these three items until it satisfies itself that the relationship between them is the best obtainable. Only then does the sales forecast result in the setting of a sales volume objective. At that time, the chief sales executive accepts responsibility for making the forecast “come true”. Sales policies and selling strategies, formulated by the chief sales executive and his or her subordinates, must be put into effect in the grand effort to reach the sales volume, profit, and other objectives.

EVELUATION OF FORECASTS

Before submitting forecasts to higher management, sales executives evaluate them carefully, regardless of the extent of their personal involvement in the preparation. Every forecast contains elements of uncertainty. All are based on assumptions. So a first step in evaluating a sales forecast is to examine the assumptions (including any hidden ones) on which it is based. Sales executives should view each assumption critically and note particularly any that seem unwarranted, testing each by asking: If his assumption were removed, or changed, what would be the effect on the forecast? They should evaluate the forecasting methods objectively, asking such questions as : Are there any variations here from what past experience would seem to indicate? Has sufficient account been taken of trends in the competitive situation and of changes in competitor’s marketing and selling strategies? Has account been taken of any new competitive products that might affect the industry’s and company sales? Have inventory movements at all distribution levels (including those at wholesale and retail levels) been considered?

Sales executives should evaluate the accuracy and economic value of the forecast as the forecast period advances. Forecasts should be checked against actual results, differences explained, and indicated adjustments made for the remainder of the period. When the period’s sales results are all recorded, all variations should be explained and stored for future use in improving forecasting accuracy. Considerable planning and analysis precedes the setting of the company’s sales volume objective, that is, the dollar or unit sales volume that management seeks to obtain during a particular future period. Determining the market potential the maximum possible sales opportunities present in a market and open to all industry members requires identification of the market and determination of buying reasons. Sales potential representing the maximum possible sales opportunities present in given markets and open to a particular company, are derived from market potentials after analyses of past market share relationships and through making adjustments for recent or anticipated changes in company the competitors' marketing and selling programs. Estimates of sales potential, however, differ from estimates contained in sales forecasts. An estimate for sales potential indicates how much a company could sell if it had all the necessary resources and desired to use them for this purpose, whereas a sales forecast estimate indicates how much a company with a given amount of resources can sell if it implements a particular marketing program.

The basic purpose of an operating sales forecast is to predict how much a company can sell during a specified future period under a given marketing plan. There are many different methods of sales forecasting, and we have considered six methods here. Most methods look forward and backward, each has merits and limitations, and all call for judgment on someone's part. The guiding rule is to select methods that stand the best chance of achieving the desired degree of accuracy at the most reasonable costs I terms of time and money. Converting an industry sales forecast into a company sales forecast requires assessment of company strengths and weakness vis-à-vis those of competitors and quantitative estimates of market shares.

The sales forecast estimate does not automatically become the company's sales volume objective. Adjustments are made for changes in marketing plans or in competition. The sales volume objective must be attainable at costs low enough to permit reaching the profit objective, and it must be in line with the company's marketing capabilities.

1.24. Direct Marketing

Most companies rely primarily on advertising, sales promotion, and personal selling to move their products and services. They use advertising to create awareness and interest, sales promotion to provide an incentive to buy, and personal selling to close the sale. Direct marketing attempts to compress these elements to lead to a direct sale without using an intermediary. The person exposed to an ad-in a catalog, direct-mail piece, phone call, magazine, newspaper, TV, or radio program-can call a toll-free 800 number and charge the order to a credit-card number, or respond by mail and either write in the credit card number or enclose a check.

Although Direct marketing first emerged in the form of direct-mail and mail-order catalogs, it has taken on several more forms in recent years, including telemarketing, direct-response radio and television, electronic shopping, and the like. What is common to these diverse marketing vehicles is that they are used to obtain direct orders from targeted customers or prospects. This is in contrast to mass advertising, which reaches an unspecified number of people, most of whom are not in the market for the product and will not make a purchase decision at a retail outlet until some future occasion.

Although direct marketing has boomed in recent years, a large number of companies still relegate it to a minor role in their promotion mix. The company's advertising, sales-promotion, and sales force departments receive most of the promotion dollars and jealously guard their budgets (although some of these budgets are used for direct marketing). Many advertising agencies still don't offer direct marketing services because they are unfamiliar with this new discipline or believe they can make more money developing and running advertising campaigns. Still, most large advertising agencies have acquired direct-marketing capabilities and are increasingly offering their clients more varied communication resources.

1.25. Nature, Definition, Characteristics, Growth, and Advantages of Direct Marketing.

The term direct marketing has taken on new meanings over the years. Originally, it was simply a form of marketing in which products or services moved from producer to consumer without the use of any middleman. In this sense, companies that use sales people to sell direct to end users or that operate factory outlets are using direct marketing. Later, the term described marketing done through the mails, whether catalog marketing or direct-mail marketing.

Characteristics of direct marketing:

1) Non Public: The messages are addressed to specific person and do not reach others.
2) Customized: The message can be customized to appeal to the addressed individual.
3) Up to date: A message can be prepared very quickly for delivery to an individual.

Definitions:

Philip kotler defines direct marketing as "use of more, telephone and other non personal contact tools to communicate with or solicit a response from specific customers and prospects".

Later on it was redefined by Direct Marketing Association as "an interactive system of marketing, which uses one or more advertising media to affect a measurable response and/or transaction at any location".

In this definition, the emphasis is on marketing undertaken o get a measurable responds, typically an order from a customer. (It can be called direct-order marketing.)Today, many users of direct marketing visualize it as playing a broader role (which can be called direct-relationship marketing)[2]. These direct marketers use direct response advertising media to make a sale and learn about a customer whose name and profile are entered in a customer database, which is used to build a continuing and enriching relationship. The emphasis is on building preferred customer relationships. Airlines, hotels, and other are building strong customer relationships through frequency award programs and are using their customer database to target their offers to individual customers. They are making offers to those customers and prospects most able, willing, and ready to buy the product or service. To the extent that they succeed, they will gain much higher response rates to their promotions. Sales produced through direct-marketing channels have been growing at a rapid rate. While retail sales grow around 6% annually, catalog / direct-mail sales are growing at around 10%.

Direct marketing is used by manufactures, retailers, service companies, catalog merchants and nonprofit organizations. Its growth in the consumer market is largely a response to the “ demassification ” of the market, in which there is an ever multiplying number of market niches with highly individualised needs and preferences. People in these markets have credit cards and known mailing addresses and telephone numbers, which facilitate reaching and transacting with them. Households have less time to shop because of the substantial number of women who have entered the workforce. The highest costs driving, traffic congestion, parking headaches, the storage of retail sales help and queues at the checkout

1.26. Major Tools of Direct Marketing

a. Catalog Marketing.

In us catalog marketers mail annually over12.4 billion copies of more than 8,500 different catalogs. The average household receives at least 50 catalogs per year. These catalog houses lead in developing attractive product assortments and illustrating them in fine four color photographed layouts. They provide a 24 hour toll free number, payment by credit card, and early shipment of merchandise. The success of a mail-order business depends greatly on the company’s ability to manage its mailing and customer lists, to control its inventory carefully, to offer quality merchandise, and to project a distinctive customer- benefiting image. Some catalog companies distinguish themselves by adding literary or information features to their catalogs, sending swatches of materials, operating a special hotline to answer questions, sending gifts to the best customers and donating a percent of profits to good causes.

b.Direct – Mail Marketing:

Direct- mail marketing is a huge business that runs into the tens of billions of dollars. Direct marketers send single mail pieces-letters flyers, foldouts, and other "salespeople on wings". Some direct marketers have been mailing audiotapes, videotapes and even computer diskette's. An exercise – Equipment Company mails a video demonstrating the use and health advantages of an expensive home exercise machine called the Nordic Track Cardiovascular Exerciser. Ford sends a computer diskette called a Disk Drive Test Drive to consumers responding to its car ads in computer publications. The diskette's menu allows the consumer to read persuasive copy, get technical specifications, view attractive graphics about the car, and get answers to frequently asked questions. In general, direct- mail marketers hope to sell a product or service, collect or quality leads for the sales force, communicate interesting news, or reward loyal customers with a gift. The names might be selected from a list compiled by the company or from lists purchased from mailing list brokers. These brokers are able to sell lists of any description – the super wealthy, mobile-home owners, classical-music lovers, and so on. Direct marketers typically buy a sub sample of names from a potential list and do a test mailing to see if the response rate is high enough. Direct mail is becoming increasingly popular because it permits high target-market selectively, can be personalized, is flexible and allows early testing and measuring of results. While the cost per thousand people reached is higher than with mass media, the people reached are much better prospects. Over 45% of Americans purchased something through direct mail in 1991. Direct mail has proved very successful in promoting books, magazine subscriptions and insurance and is increasingly being used to sell novelty and gift items, clothing gourmet foods, and industrial items. Direct mail is also used heavily by charities which raised $49 billion (24% of total charity money raised) in 1990 and accounted for about 25% of all direct – mail revenues.

c. Tele Marketing.

In us Telemarketing has become a major direct- marketing tool. In 1991 marketers spent an estimated $234 billion in telephone charges to help sell their products and services. Telemarketing blossomed in the late 1960s with the introduction of inbound and outbound Wide Area Telephone Service (WATS). With IN WATS, marketers can offer customers and prospects toll-free 800 numbers to place orders for goods or service stimulated by print or broadcast ads, direct mail or catalogs, or to make complaints and suggestions. With OUT WATS they can use the phone to sell directly to consumers and businesses, generate or qualify sales leads, reach more distant buyers, or service current customers or accounts. The average household 19 telephone calls each year and makes 16 calls to place orders. Some telemarketing systems are fully automated. For example automatic-dialing and recorded –message players (ADRMPs) can dial numbers, play a voice-activated advertising message, and take orders from interested customers on an answering machine device or by forwarding the call to an operator. Telemarketing is increasingly used in business marketing as well as consumer marketing. For example, Raleigh Bicycles used telemarketing to reduce the amount of personal selling needed for contacting its dealers. In the first year, sales force travel costs were reduced by 50% and sales in a single quarter were up 34% still not popular in India)

d. Television direct response marketing

Television is a growing medium for direct marketing both through network and cable channels. Television is used in two ways to market products directly to consumers. The first is through direct-response advertising. Direct-response marketers air television spots, often 60 or 120 seconds long that persuasively describe a product and give customers a toll-free number for ordering. Direct-response advertising works well for magazines, books, small appliances, records and tapes, collectibles, and many other products. One of the best examples is Dial Media's ads for Ginsu knives, which ran for seven years and sold almost three million sets of knives worth over 540 million in sales. Recently, some companies have prepared 30-minute "infomercials," which resemble documentaries-on quitting smoking, curing baldness, or losing weight-and carries testimony from satisfied users of the product or service, and includes a toll-free number for ordering or getting further information. Another television marketing approach is at-home shopping channels where an entire television program- or whole channel-is dedicated to selling goods and services. The largest is the Home Shopping Network (HSN), which broadcasts 24 hours a day. The program's hosts offer bargain prices on products ranging from jewellery, lamps, collectible dolls, and clothing to power tools and consumer electronics-usually obtained by HSN at closeout prices. The show is upbeat, with the hosts honking horns, blowing whistles, and praising viewers for their good taste. Viewers call an 800 number to order goods. Handling more than 1,200 incoming lines, 400 operators enter orders directly into computer terminals. Orders are shipped within 48 hours.

e. Radio, magazine, and news paper direct response marketing. Radio, Magazines, newspapers, and radios are also used to present direct response offers to customers. The person hears or reads about an offer and dials a toll-free number to place an order.

f. Electronic shopping.

Electronic shopping takes tow forms. The first, videotext, is a two-way system that links consumers' television sets with the seller's computer data banks by cable or telephone lines. The videotext service consists of a computerized catalog of products offered by producers, retailers, banks, travel organizations, and others. Consumers use an ordinary television set that has a special keyboard device connected to the system by two-way cable. The other form involves the use of personal computers with a modem through which consumers dial a service such as Prodigy or CompuServe. For a monthly charge or usage charge, these services allow consumers to order goods from local or national retailers; do their banking with local banks; book airline, hotel, and car rental reservations; get headline news and movie reviews; and send messages to others. The number of users of electronic home shopping is still quite small but is likely to grow as more consumers acquire cable television and personal computers.

g. Kiosk shopping

Some companies have designed “customer-order-placing machines” (in contrast to vending machines) and placed them in stores, airports, and other locations. For example, the Florsheim Shoe Company includes a machine in several of their stores on which the customer indicates the type of shoe he wants (dress, sport), and the color and size. Pictures of Florsheim shoes appear on the screens that meet his criteria. If the particular shoes are not available in the store, the customer can dial an attached phone and type in his credit-card information and where the shoes should be delivered. In another application, Hosts USA is a kiosk found in airports. The traveler sees a video screen with text describing categories such as executive gifts, action gifts, kids’ gifts, and spirits. The traveler touches the screen to indicate a category of interest. Within the category, if she is interested in, say, samsonite luggage, a video comes on dramatizing the benefits of samsonite luggage. If she wants to order it, she touches the screen again to indicate whether she wants it gift wrapped, with or without a personal note, and next-day or regular delivery. A phone next to the screen rings and she puts her credit card into a slot. This completes the transaction, and the product is then mailed to the indicated address.

Direct marketing provides a number of benefits to customers. Consumers who buy from mail-order channels say that mail-order shopping is fun, convenient, and hassle-free. It saves them time. They can do comparative shopping from their armchairs by browsing through their catalogs. It introduces them to a largest selection of merchandise and to new lifestyles. They can order gifts to be sent directly to intended receipts without having to leave their homes. Industrial customers also attest to a number of advantages, specifically learning about many products and services without tying up time in meeting salespeople.

Direct marketing provides a number of advantages to sellers. It allows greater prospect selectivity. A direct market can by a mailing list containing the names of almost any group left-handed people, overweight people, millionaires, newborn babies, and so on. The message can be personalized and customized. “Furthermore, the direct marketer can build a continuous relationship with each customer. The mother of the other newborn baby will receive regular mailings describing new clothes, toys and other goods that the growing baby will need. Direct marketing can be timed more precisely to reach prospects at the right moment. Direct marketing material receives higher relationship, since it reaches more interested prospects. Direct marketing permits. Testing of alternative media and message (headlines. salutations, benefits, prices and the like) in the search for the most cost-effective approach. Direct marketing premises privacy in that the direct marketer’s offer and strategy are not visible to competitions Finally, the direct market knows whether the campaign has been profitable because of response measurement.

1.27. The Development of Integrated Direct Marketing.

Most direct marketers rely on a single advertising vehicle and a “one-shot” effort to reach and sell a prospect. An example of a single vehicle, Single-stage campaign would be sending a one-time mailing offering a cookware item. A single vehicle, multiple stage campaign would involve sending successive mailings to a prospect to trigger purchase. Magazine publishers, for example, send about four notices to a house-hold to get reluctant subscribers to renew. A more powerful approach is to execute a multiple vehicle, multiple-stage campaign. Roman calls this technique integrated direct marketing (IDM). Consider the following sequence:

Campai gn	→	Paid ad with a response mechanis m	→	Dire ct mail	→	Outbou nd telemar- keting	→	Fact-to- face sales call	→	Ongoing communi c- a tion

For example, a computer company may launch a new computer by first arranging news stories to stir interest. Then the company can place full-page ads to create further awareness and interest. The ads would contain an offer of a free booklet. The company would then mail the brochure and an offer to sell the computer at a special price. Those who do not buy are then phoned. Some prospects will place an order; others might request a face-to-face sales call. Even if the prospect is not ready to buy, their is ongoing communication. Roman says that this use of response compression, whereby multiple media are deployed within a tightly defined time frame, increases impact and awareness of the message. The underlying idea is to deploy select media with precise timing to generate greater incremental sales that exceed incremental costs.

1.28. <u>Developing a Database Marketing System.</u>

Most companies have not yet moved into database marketing, which goes far beyond simple direct marketing. Database marketing uses database technology and sophisticated analytical techniques combined with direct-marketing methods to elicit a desired, measurable response in target groups and individuals. Many companies still confuse a customer list with a marketing database. A customer list is simply a se t of names, addresses, and telephone numbers, whereas a marketing database contains individual's demographics, psychographics, media graphics, past sales by recency, frequency, monetary amount, and other relevant descriptors.

Definition.❖ A marketing database is an organized collection of comprehensive data about individual customers, prospects, or suspects that is current, accessible, and actionable for such marketing purposes as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships. At the present time, mass marketers generally know little about individual customers. Retailers know some things about their charge-account customers but almost nothing about their cash or other credit-card customers. Banks develop customer databases in each separate product area but typically fail to tie this information together in a complete profile of the customer that could be used for cross selling purposes or relationship pricing.

Well-trained field salespeople, on the other hand, normally develop effective customer databases. Using a laptop computer, they record pertinent facts about their individual customers: their purchase volume, prices, needs, buying criteria, hobbies, food preferences, family names, birthdays, and so on. Following each sales call, the salesperson enters information on when to make the next call, special customer concerns and questions, and so on. Knowing a lot about each customer gives salespeople a district competitive advantage.

Building a marketing database involves investing in central and remote computer hardware, data-processing software, information-enhancement programs, communication links, personnel to capture data, user-training costs, design of analytical programs, and so forth. The system should be user friendly and available to various marketing groups, such as those in product and brand management, new product development, advertising and promotion, direct mail, telemarketing, field sales, order involves much cost, but when it runs properly, the selling company will achieve much cost, but when it runs properly, the selling company will achieve much higher marketing productivity.

1.29. <u>Major Decisions in Direct Marketing.</u>

In preparing a direct-marketing campaign, marketers must decide on their objectives, targets, offer strategy, various tests, and measure of campaign success. Here we will review these decisions.

1. OBJECTIVES ❖ The direct marketer normally aims to secure immediate purchases from prospects. The campaign's success is judged by the response rate. A response rate of 2% is normally considered good in direct-marketing sales campaigns. Yet this rate also implies that 98% of the campaign effort was wasted. That is not necessarily the case. The direct' marketing presumably had some effect on awareness and intention to buy at a later date. Furthermore, not all direct marketing aims to produce an immediate sale. One major use of direct marketing is to produce prospect leads for the sales force. Direct marketers also send communications to strengthen brand image and company preference; examples include banks that mail birthday greeting cards to their best customers and department stores that send gifts to their best customers. Some direct marketers run campaigns to inform and educate their customers to prepare them for later purchase; thus Ford sends out booklets on "How to Take Good Care of Your Car." Given the variety of direct-marketing objectives, the direct marketer needs to carefully spell out the campaign objectives.

2.TARGET CUSTOMERS ❖ Direct marketers need to figure out the characteristics of customers and prospects who would be most able, willing, and ready to buy, Bob Stone recommends applying the R-F-M levels, and each customer is scored; the higher the score, the more attractive the customer. Direct marketers can use segmentation criteria in targeting prospects. Good prospects can be identified on the basis of such variables as age, sex, income, education, previous mail-order purchases, and so forth. Occasions also provide a good segmentation departure point. New mothers will be in the market for baby clothes and baby toys; college freshmen will buy typewriters, computers, television sets and clothing; and newly marrieds will be looking for housing, furniture, appliances, and bank loans. Another good segmentation departure point is consumer lifestyles. There are consumers who are computer buffs, cooking buffs, outdoor buffs, and so forth; some successful catalog marketers have targeted these groups and won their hearts and minds.

Once the target market is defined, the direct marketer needs to obtain names of good prospects in the target market. Here is where list acquisition and management skills come into play. The direct marketer's best list is typically the house list of past customers who have bought the company's products. The direct marketer can buy additional lists have problems, including name duplication, incomplete data, obsolete addresses, and so on. The better lists include overlays of demographic and psychographic information, in addition to simple addresses. The main point is that the direct marketer needs to test lists in advance to know their Worth.

3. OFFER STRATEGY❖ Direct marketers have to figure out an effective offer strategy to meet the target market's needs. Nash sees the offer strategy as consisting of five elements-the product, the offer, the medium, the distribution method, and the creative strategy. Fortunately, all of these elements can be tested. Each medium has its own rules for effective use. Consider direct mail. In developing a package mailing, the direct marketer has to decide on five components. Each component can help or hurt the overall response rate. The outside envelope will be more effective if it contains an illustration, preferably in color, and / or a catchy reason to open the envelope, such as the announcement of a contest, premium, or benefit to the recipient. Envelopes are more effective-but more costly-when they contain a colorful commemorative stamp, when the address is hand typed or handwritten, and when the envelope differs in size or shape from standard envelopes. The sales letter should use a personal salutation and start with a headline in bold type in the form of a news lead, a how / what / why statement, a narrative, or a question to gain attention. The letter should be printed on good-quality paper and run for as many pages as are necessary to make the sale, with some indented paragraphs and underlining of pertinent phrases and sentences. A computer-type letter usually out pulls a printed letter, and the presence of a pithy P.S. at the letter's end increases the response rate, as does the signature of someone whose title is appropriate and impressive. A colorful circular accompanying the letter will also increase the response rate in most cases by more than its cost. The reply form should feature an 800 toll-free number and contain a perforated receipt stub and guarantee of satisfaction. The inclusion of a postage-free reply envelope will dramatically increase the response rate.

Consider, on the other hand, a telemarketing campaign. Effective telemarketing depends on choosing the right telemarketers, training them well, and incentivizing them. Telemarketers should have pleasant voices and project enthusiasm. Women are more effective than men for many products. The telemarketers should initially train with a script and eventually move toward more improvisation. The opening lines are critical: They should be brief and lead with a good question that catches the listener's interest. The telemarketer needs to know how to end the conversation if the prospect seems to be a poor one. The call should be made at the right time, which is late morning and afternoon to reach business prospects, and the evening hours between 7 to 9 to reach households. The telemarketing supervisor can build up telemarketer enthusiasm by offering prizes to the first one who gets an order or to the top performer. Given the higher cost per contact for telemarketing, and privacy issues, precise list selection and targeting is critical. Clearly, other media, such as catalog mail order, TV home shopping, and so on, have their own rules for effective use.

4. TESTING DIRECT-MARKETING ELEMENTS ❖ One of the great advantages of direct marketing is the ability to test under real marketplace conditions the efficacy of different components of the offer strategy. Direct marketers can test product features, copy, prices, media, mailing lists, and the like. Although direct marketing response rates are at the single-digit level, testing these components can add substantially to the overall response rate and profitability. The response rate to a direct-marketing campaign typically understates the long-term impact of the campaign. Suppose only 2% of recipients of a direct-mail piece advertising Samsonite luggage place an order. A much larger percentage became aware (Direct mail has high readership), and some percentage formed an intention to buy at a later date (the purchase will occur at a retail outlet). Furthermore, some percentage of the audience may mention Samsonite luggage to others as a result of seeing the promotion. Some companies are now measuring the impact of direct marketing on awareness, intention to buy, and word of mouth to derive a larger estimate of the promotion's impact than is measured by the response rate alone.

5. MEASURING THE CAMPAIGN'S SUCCESS ❖ By adding up the planned campaign costs, the direct marketer can figure out in advance the needed break even response rate. This rate must be net of returned merchandise and bad debts. Returned merchandise can kill an otherwise effective campaign. The direct marketer needs to analyze the main causes of returned merchandise, such as late arrival, defective merchandise, damage in transit, not as advertised, incorrect order fulfillment. By carefully analyzing past campaigns, direct marketers can steadily improve their performance. Even when a specific campaign fails to break even, it might still be profitable.

Direct marketing has spawned a growing body of theory, measurement, and competent practice. It adds a number of communication concepts and capabilities to the marketers' toolbox. When tied to a carefully developed customer database, it can increase sales and profit yields and strengthen customer relationships. It can provide more accurate prospect leads and trigger new sales at a lower cost ultimately; marketers will make direct marketing and database marketing an integral part of their marketing strategy and planning.

1.30. <u>Issues in the Use of Direct Marketing</u>

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges. Concerns include simple excesses that irritate consumers, instances of unfairness, cases of outright deception and fraud, and invasion-of-privacy issues.

a. Irritation - Many people find the increasing number of hard-sell solicitations to be a nuisance. They dislike direct response TV commercials that are too loud, too long, and too insistent. Especially bothersome are dinner-time or late-night phone calls, poorly trained callers, and computerized calls placed by an ADRMP (auto-dial recorded message player).

b. Unfairness- Some direct marketers take unfair advantage of impulsive or less sophisticated buyers. TV shopping shows and program-long "infomercials" may be the worst culprits. They feature smooth-talking hosts, elaborately staged demonstrations, claims of drastic price reductions, "While they last" time limitations, and unexcelled ease of purchase to capture buyers who have low sales resistance.

c. Deception and Fraud Some direct marketers design mailers and write copy intended to mislead buyers. They may exaggerate product size, performance claims, or the "retail price." Political fund raisers sometimes use gimmicks such as "look-alike" envelopes that resemble official documents, simulated newspaper clippings, and fake honours and awards. Some nonprofits organizations pretend to be conducting research surveys when they are actually asking leading questions to screen or persuade consumers. The Federal Trade Commission receives thousands of complaints each year about fraudulent investment scams or phony charities. By the time buyers realize that they have been bilked and alert the authorities, the thieves are usually somewhere else plotting new schemes.

d. Invasion of Privacy- Invasion of privacy is perhaps the toughest public-policy issue now confronting the direct-marketing industry. It seems that almost every time consumers order products by mail or telephone, enter a sweepstakes, apply for a credit card, or take out a magazine subscription, their names, addresses, and purchasing behavior are entered into some company's already bulging database. Using sophisticated computer technologies, direct marketers can use these databases to effectively "micro target" their selling efforts. Consumers often benefit from such data base marketing-they receive more offers that are closely matched to their interests. However, direct marketers sometimes find it difficult to walk the fine line between their desires to reach carefully targeted audiences and consumer rights to privacy. Many critics woory that marketers may use know too much about consumer's lives, and that they may use this knowledge to take unfair advantage of consumers. They ask: should AT & T be allowed to sell marketers the names of customers who frequently call the 800 numbers of catalog companies? Is it right for credit bureaus to compile and sell lists of people who have recently applied for credit cards-people who are considered prime direct-marketing targets because of their spending behavior? Or is it right for states to sell the names and addresses of driver's license holders, along with height, weight, and gender information, allowing apparel retailers to target tall or overweight people with special clothing offers? The direct-marketing industry is working to address issues of ethics and public policy. They know that, left untended, such problems will lead to increasingly negative consumer attitudes, lower response rates, and calls for greater state and federal legislation to further restrict direct-marketing practices. More importantly, in the last analysis, most direct marketers want the same thing that consumers who will appreciate and respond to them. Direct marketing is just too expensive to waste on consumers who don't want it.

1.31. <u>Relationship Marketing</u>

The principles of personal selling and negotiation as described are transaction oriented; that is, their aim is to help salespeople close a specific sale with a customer. But in many cases, the company is not seeking simply a sale: it has targeted a major customer account that it would like to win and serve. The company would like to demonstrate to the account that it has the capabilities to serve the account's needs in a superior way, particularly if a committed relationship can be formed. The type of selling to establish a ling-term collaborative relationship is more complex than that described earlier. Neil Rack ham sees the selling process as involving four stages; preliminaries, investigating, demonstrating capability, and obtaining commitment. He notes that obtaining commitment involves many more agreements than simply closing the sale.

More companies today are moving their emphasis from transaction marketing to relationship marketing. The days of the "lone sales person" working his or her territory and being guided only by a sales quota and a compensation plan are numbered. Today's customers are large and often global. They prefer suppliers who can sell and deliver a coordinate set of products and services to many locations; who can quickly solve problems that arise in their different locations; and who can work closely with customer teams to improve products and processes. Unfortunately, most companies are not set up to meet these requirements. Their products are sold by separate sales forces that don't easily work together. Their national account managers may be turned down when requesting help from a district salesperson. The company's technical people may not be willing to spend time to educate a customer. Companies recognize that sales teamwork will increasingly be the key to winning and maintaining accounts. yet they recognize that asking their people for team work doesn't produce It. They need to revise their compensation system to give credit for work on shared accounts; they must set up better goals and measures for their sales force; and they must emphasize the importance of teamwork in their training programs, while at the same time also honoring the importance of individual initiative. Relationship marketing is bases on the premise that important accounts need focused and continuous attention. sales people working with key customers must do more than call when they think customers might be ready to place orders. They should call or visit at other times, taking customers to dinner, making useful suggestions about their business, and so on. They should monitor these key accounts, know their problems, and be ready to serve them in a number of ways. Here are the main steps in establishing a relationship marketing program in a company:

- ❖ *Identify the Key Customers Meriting Relationship Marketing:* The company can choose the five or ten largest customers and designate them for relationship marketing. Additional customers can be added who show exceptional growth.
- ❖ *Assign a Skilled Relationship Manager to Each Key Customer:* The salesperson servicing the customer should receive training in relationship marketing.
- ❖ *Develop a Clear Job Description for Relationship Managers:* It should describe their reporting relationships, objectives, responsibilities, and evaluation criteria. The relationship manager is responsible for the client, is the focal point for all information about the client, and is the mobilizer of company services for the client. Each relationship manager will have only one or a few relationships to manage.
- ❖ *Appoint an Overall Manager to Supervise the Relationship Managers:* This person will develop job descriptions, evaluation criteria, and resource support to increase relationship managers' effectiveness.

- *Each Relationship Manager Must Develop Long- range and annual Customer-Relationship Plans:* The annual relationship plan will state objectives, strategies, specific actions, and required resources.

When a relationship management program is properly implemented, the organization will begin to focus as much on managing its customers as on managing its products. at the same time, companies should realize that while there is a strong and warranted move toward relationship marketing, it is not effective in all situations. Ultimately, companies must judge which segments and which specific customers will respond profitably to relationship management.

In text questions

1) Define personal selling and explain its significance and limitations.
2) Discuss elaborately the personal selling process.
3) Explain the various types of personal selling.
4) Explain the AIDAS approach in selling.
5) Write brief notes on alternative structures for sales forces.
6) Explain the various selling styles.
7) How will you analyze sales potential?
8) Explain the various sales forecasting methods.
9) Define direct marketing and explain the various direct marketing tools.
10) Explain the various decisions in direct marketing.
11) Explain the concept of relation ship marketing.
12) Write short notes on a)Direct mail marketing b)Telemarketing c)Electronic shopping d)Kiosk shopping
13) How do you formulate the sales objective?
14) Explain the various issues in direct marketing
15) Explain how industry forecast is converted into company forecast.

Summary

Among the various promotional mix tools in this unit we have discussed about the two tools i.e., personal – marketing and direct marketing. As the consumer demand has increased there two tools have lost their glamour but, still for marketing goods that do not have adequate demand, companies relay on these methods. Sales people are very difference in achieving certain marketing

objectives. At the same time, they are very costly. Management must carefully design and manage its personal-selling-resources. The purpose of sales force is to sell, and selling is an art. Selling is a seven steps process. Prospecting and qualifying, preapproach, approach, presentation and demonstration, overcoming objections, closing and follow-up and maintenance. Another aspect of selling is negotiation, the art of arriving at transaction terms that satisfy –both the parties. A third aspect is relationship marketing, fine art of creating a closer working relation and interdependence between the people in two organizations. Direct marketing is an interactive system of marketing, which uses one or more advertising media (direct mail, catalogs, telemarketing, electronic shopping, and so forth) to effect a measurable response and /or transaction at any location. Its advantages are selectivity, personalization, continuity, better timing, higher reader ship, testability, and privacy.

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Unit – II

SALES FORCE COMPENSATION

Learning objectives

1.Definition on sales force compensation

2.Various methods of compensation

3.Choosing the best compensation for sales force

As mentioned in an earlier chapter, to attract, retrain, and motivate the best salespeople, you should pay them more than they are worth. Then using proper techniques for hiring, training, organization, deployment, planning, non-monetary motivation, evaluations, and automation, you should make these well-paid salespeople worth more than what you pay them. However, remember that money is not a universal incentive. Salespeople reach complacency plateaus and comfort zones. In the twenty-first century, salespeople have two-income families and other income-producing assets such as real estate, stocks, and bonds. Also, career salespeople who have no interest in management or no opportunity for management require non-monetary motivation.

Sales force compensation involves deciding how much your successful salespeople should earn in total dollars and then what portion of that total should be fixed versus performance pay. Total compensation depends on the complexity of the salespersons selling tasks. The mix between performance and fixed pay depends on:

- Balancing salesperson and company needs,
- The type of salesperson you wish to attract,
- The salespersons influence on the sale,
- The type product/service sold, and
- Rewarding the salespersons specific actions/results most important to the company’s success.

Sales force compensation involves salary, commission, and bonus, but fringe benefits and reimbursed expenses.

A company’s sales force compensation plan communicates to salespeople where management wants them to focus, but this compensation plan may not change salespeople's behavior. For example, a nonresidential, commercial security service offered customers smoke and motion detectors plus window sensors. The firm paid salespeople a higher commission and bonus for leases rather than outright purchases, for renewal of central monitoring contracts, and for new accounts. However, salespeople did little prospecting for new accounts, contract renewals remained low, and leases were seldom offered. This firm did not properly hire and train salespeople for these tasks, and although the compensation program gave a strong message on where to concentrate, the salespeople did not alter their behavior. A good compensation plan loses its effectiveness when applied to a weak or badly trained sales force.

Some managers abdicate their sales management responsibility by rationalizing that the compensation system will direct all salespeople's behavior. The ultimate example of this are companies that compensate salespeople on 100% performance pay, which may be a commission based on revenue or margins. In such a situation, the manager often does not spend enough time and thought hiring, training, planning, motivating, or evaluating salespeople, claiming that 100% commission will self-select the right people and self-direct them to work hard/smart, train, and evaluate themselves. These are dangerous assumptions.

Each year successful sales managers re-evaluate the sales force compensation program. As stressed throughout this book, business is a dynamic process; the future is a moving target. In this century the landscape changes quickly and often. As an agent of change, the sales manager must expect and manage change. If you were to totally reconstruct the compensation program, would it look the same? In the last year, how have your products, customers, competitors, technology, salespeople, strategy, the sales cycle, the customer decision-making process, and prices changed? Does the compensation program reflect these changes? Since a compensation system acts as a natural filter in attracting and retaining salespeople, annual changes should be modest rather than dramatic.

Increasing compensation for a new product or revenue growth while decreasing it on matured products or previous revenue levels represents acceptable adjustments. Going from 100% salary to 100% commission will create confusion and salesperson turnover. Admitting the mistake by changing back to the original program proves difficult, like putting toothpaste back in the tube.
The compensation system is often a legacy issue that is inherited from a predecessor, is continued year after year, follows industry tradition, or is copied from a competitor. A follow-the-loser strategy does not work in the type of dynamic environment described in the previous paragraph.

TYPES OF SALES FORCE COMPENSATION

Salespeople receive direct compensation, fringe benefits, and reimbursed expenses as part of their total pay package. Direct compensation consists of fixed pay (salary), performance pay (commission), and deferred performance pay (bonus). Fringe benefits range from mandatory social security, medicare, and unemployment insurance to required medical and health plans to optional profit sharing, stock options, and tuition reimbursement. Reimbursed expenses range from salespeople paying their own expenses to employers sharing of these costs to total salesperson reimbursement on all travel, entertainment, communication, and office expenses. The key is giving salespeople an economic incentive to spend wisely. This chapter deals with all these alternatives in some detail.

TOTAL COMPENSATION

In constructing a compensation program, you first decide the rupees of compensation for a successful or top salesperson. Your next decision is dividing those dollars between fixed and performance pays. The total compensation appropriate for a successful salesperson is determined by the complexity of the sale and type of selling. You define a successful salesperson as someone who ranks in the top 25% of your sales force in terms of results (annual dollars of sales or margin and growth).

A successful or top salesperson involved in a long, complex, multistep, consultative, partnership sales process should receive over Rs1, 00,000 annually in total direct compensation regardless of the mix between fixed and performance pay. Salespeople selling enterprise wide supply chain software and services, B2B e-commerce sites, or telephone systems, all of which involve long complex sales cycles, generally receive total annual direct compensation in excess of Rs 1, 00,000. Such a salesperson often sells a product/service to a one-time, first-time, new systems buyer.

CHOOSIING THE CORRECT MIX BETWEEN PERFORMANCE AND FIXED PAY

The mix between performance and fixed pay depends on:

1) Balancing salesperson and company needs,
2) The type of salesperson you wish to attract,
3) The salesperson's influence on the sale,
4) The type product/service sold, and
5) Rewarding the salesperson's specific actions/results most important to the company's success

The correct mix between performance and fixed direct compensation must reflect the company and salespeople's needs. Basically, the company needs to attract, retain, and motivate salespeople who produce a desired level of sales at a cost that generates profits and allows necessary percentage returns on sales and invested capital. Good salespeople need a compensation plan that relieves them of basic financial worries, gives them pride in what they earn, reflects their qualifications and experience, and equals or betters that of the competition. Compensating salespeople on the basis of the replacing them-or just the cost of preventing them from leaving-does not satisfy these needs. Generally, you will obtain better results with fewer but more qualified and more highly paid salespeople than you will with a larger sales force that includes less qualified, lower-paid people.

SALARY PLANS VERSUS COMMISSION PLANS

Salary provides salespeople with a fixed amount of pay per period regardless of their recent activities or results. Nonetheless, when results exceed or fall short of expectations, you can adjust the salary accordingly. However, the reward for good performance or penalty for weak results is not immediate or direct.

Straight salary provides the salesperson with a steady income and does not stress the immediate importance of writing orders. Salary emphasizes the importance of non-selling activities and encourages the salesperson to engage in these activities. Often a salesperson must perform services after the sale that will not necessarily result in a reorder. For example, the salesperson for a small concern renting expensive tropical plants to offices may be required under the rental agreement to check and treat the plants monthly.

Because payments are the same each period, salary is easy to administer and dollars of direct selling expenses remain fixed regardless of volume. Before each month begins, you know the exact amount required for your salespeople's compensation.

A commission provides an immediate reward for successful performance. If sales increase, your people make more money; if sales decrease, they make less. Commission emphasizes the importance of writing orders and writing. Increased sales often require the salesperson to perform many tasks besides writing orders, including prospecting for new account, setting up display fixtures, counting stock, calibrating equipment, training, programming, or solving a data entry problem. Commission provides the sales force with an incentive to work hard and earn a great deal of money. Only time, energy, and territory restraints limit the salesperson's compensation.

BONUSES

Bonuses represent an excellent means of using performance pay to reward positive action and superior results. Many firms defer bonuses to year-end because the bonus is paid on cumulative results. Some firms defer bonuses to the next year to help with tax planning and lower turnover. Often a bonus provides an extra, deferred reward for some form of outstanding performance over and above the forecast or goal. Often bonuses increase as salespeople exceed goals. Hewitt Association LLC surveyed 120 Fortune 1000 firms, of which two-third used quota-based bonuses. Of these, 80 percent felt their quota-setting process was effective, and two-thirds used a top-down quota- setting process relying on historical data and management projections.

Many salespeople feel quotas used for bonuses do not fairly reflect market potential or accurate forecasts. Often this results from a lack of reliable data. Better historical tracking systems and knowledge of buyer behavior is improving accuracy. To obtain salesperson buy-in, include them in the quota-setting process.

COMBINATION PLANS

Some combination of salary, commission, and bonus represent the most widely used from of sales compensation. Because the objectives of compensation plan usually involve quickly and effectively rewarding a combination of action, results, and behavior, rather than one simple action, combination prove most appropriate. Combination plans can be targeted to encourage the specific behavior, action, and result most beneficial to your sales effort and to eliminate the disadvantage of straight commission or straight salary.

Combination plans lack the simplicity of straight commission or straight salary plans, however, and this makes them more difficult for the company to administer and for the salespeople to understand. A common for too many activities, rather than emphasizing the most important ones—for example, paying a bonus for new accounts and new product placement, a commission on sales increase and gross margin, plus a base salary for retention. Because of their complexity, combination plans can require more frequent revision than either straight salary or straight commission.

EXPENSES REIMBURSEMENT

In addition to direct compensation, the sales force is also rewarded through reimbursed expenses and fringe benefits. Regardless of product or service, any expenses reimbursement plan should be fair, controllable, fast, simple, easy to understand and administer, and flexible. Salespeople should have an economic incentive for controlling their expenses and for using expenses money productively and efficiently. If no economic incentives exist because expenses are open-ended, salespersons use them as an additional form of compensation. Similarly, management cannot ask its salespeople to pay for expenses when this would lower their total compensation to an unacceptable level.

FRIENGE BENEFITS

As mentioned, in addition to direct compensation, sales forces costs include reimbursed expenses, which often equal 25 percent of direct compensation, and fringe benefits, which often equal another 25 percent. Fringe benefits include mandatory items such as Social security, medicare and unemployment insurance, plus expected items such as health, life, and disability insurance, vacations and retirement plans and optional items such as profit sharing, stock options, education reimbursement, clubs, dental/vision insurance, and moving expenses. Fringe benefits vary from 15 percent to 40 percent of direct compensation, and this represents a significant expense item. In established firms, long-term incentives, such as stock options, are reserved for senior sales people, national account managers, and sales managers. However, younger companies often offer stock options to lure sales people away from established firms.

Channel partners such as distributors, brokers, and independent sales representatives pay their own fringe benefits. However, if a channel partner develops over 50 percent of their time to selling your firm's products/services, your firm may be liable for their fringe benefits. Discuss this with the firm's legal counsel. Responsibility for travel expenses and fringe benefits should be clearly defined in the channel partner's contract.

Some employers offer salespeople a choice of fringe benefits and plans. They can choose reimbursed education expenses up to a certain dollar amount or dental/vision insurance. Deductibles can be chosen along with co-insurance amounts on health plans. Employees may be asked to share the cost of certain fringe benefits with their employer.

Retirement plans, profit sharing, and stock options are deferred fringe benefits, which increase in value based on years of employment. Such plans help reduce sales force turnover.

INDIVIDUAL WRITTEN EXPENSE PLANS

Each sales person should receive, sign, and return their annual compensation plan. This prevents misunderstandings and allows the sales manager and salesperson to discuss the total annual cost of putting the sales person on the road. The compensation plan includes specifies on dollars of salary, rates of commission, and dollars of bonus, as well as details of the expense reimbursements and fringe benefits. Because plans and fringe benefits change annually, can be individually customized, and involve combinations of salary, commission, and bonus, ask salespeople to show their understandings of direct compensation, reimbursed expenses, and fringe benefits waste time and demotivates a sales force.

These written individual expense plans allow a sales manager the opportunity to discuss with his or her salespeople their total cost. Most salespeople perceive their total cost as their take-home pay. Most sales managers never explain or fully understand how much more than direct compensation a salesperson costs the firm.

Questions

1.What do mean by the term sales force compensation?

2.How do you determine the right type of compensation for your sales force?

3.What are fringe benefits? Why sales force need to have fringe benefits?

4.Why sales force is provided with salary and commission?

SALES FORCE TRAINING

Introduction:

In the period we are living in these years it is highly essential to present our products, specially the new ones in efficient way. Not only show them with in a scientific way, but to use the right, mainly practical part out of that "know-how" to help the customers to say "yes" to our product. It has been said already many times, here again in the following Sales Technique-Course the basis is "the backbone" of our sales and marketing efforts:

THE FIELD FORCE

The idea is to intertwine the up-to-date Sales Technique Skills and the equally important interpersonal communication skills. To meet the objective of creating the ideal combination of both aspects, as many sources as we could find have been explored. For the good observers this means that they discover the best parts of professional selling skills and Interpersonal Selling Strategies, Gordon Sales Relationship ideas and some in company developed selling skills materials.

Communication – a human discipline:

Simply ask somebody in the street "What do you think is communication?" and you will see hesitating people, trying to create a definition. Rather seldom you will hear: "information exchange", "contact absorption" or "mutual understanding".

Communication-research is something new in science and it is concentrating on interpersonal exchange of information and recognizes communication as a basic social-psychological process.

If you ask for the meaning of communication in our world it will be obvious that we can hardly pay enough time on understanding one another. Why?

Communication: the main preoccupation in the era of information

For some time now our society has been somewhat exaggeratedly referred to as a society of information. Not only is there a vast amount of knowledge to be learned and digested – new knowledge is constantly flowing in too. And when everything on others – and therefore also on communication.

When does communication regularly breakdown in practice? When the level of information of the person concerned is insufficient, and when, as a result, prejudices mar the conversation and annoy potential associates.

Communication: compulsory for team-oriented thinking and handling

Whereas in the past, the efficiency of individual professionals was clearly to the fore, today practically all fields have seen a switch from individual work to teamwork. Group project work, self help groups, brainstorming, group competition, teamwork techniques – these are just a few ideas which show how much individualistic brainwork has been replaced by teamwork.

True, if a group is poorly put together and badly led, negative factors may quickly arise such as resentment, striving for dominance, rejection, isolation, allegations of failings or even dispute. On the other hand, if the group is compatible with stimulating leadership the result is far greater than the overall sum of all possible individual contributions – thanks to collective creativity and dynamism.

I believe that communication in its optimal form is essential if we are to adopt a positive approach and get the most out of life.

Thus it should quickly become clear to you how multifaceted the functions of communication are, and that communication is a demanded mental discipline which must, of course, be based on a solid human foundation.

Pre-call Activities:

Purpose:

- To have skill and confidence in:
- Preparing yourself for the target customer(s).
- Preparing the right offer, proposal and competitive information for any target customer.
- Being able to overview your presentation goal(s).

Key Points:

- Discover and be aware of who is who (customers).
- Try to get as clear as possible a picture of customers' wishes, needs and buying motives.
- How to make my offer and the use of supportive materials.
- What I want to achieve per call.
- Look back, but above all create presentation goals based on what you think is manageable with each customer in the future.

Background Reading:

Before you go out to practice all the skills you will learn in the next days, it is of high importance to prepare yourself as intensive as you can on each call you make.

Prepare before the visit yes… but on what and how?

Who is he?

- Name of the customer
- Position, responsibilities (opinion leader; group; committees)
- Professional knowledge, prejudices (hobbies, original or generic)

- Mentality, characteristics
- Needs

(a) Personal
(b) Of the company
(c) Of you

What does he want?

- Attitude to the offer
- Resistance
- Objections
- Main buying motive(s)
- Decision process

What can I offer?

- Offer, proposals, solutions
- Competitive information
- Other services

How should I make my offer?

- Arguments in favour of buying (what, which ones?)
- Documentations (conclusive evidence)
- Sales aids
- Special pointers

What are my aims?

- Aims of my visit – to sell, decide, influence, inform
- Structure of the aims – main aim, alternative aim, second aim
- Coordination with previous or subsequent visits

What must I do now?

My preparations:

- Have I studied the indexcard of the customer sufficiently well?
- Do I know my customer's requirements?
- Have I all the appropriate material?
- Are my sales aims or discussion targets clear?
- Have I prepared my opening gambit?
- Can I find good arguments to counter the possible objections?
- Am I feeling well? Everything in order (dress, hair, car, etc.)

Sales Aids:

- Am I informed on all the possibilities I can offer the customer?
- Have I brought all (or even a little more than) the documentation needed?
- Am I able to or do I want to make concentrate proposals today?

What are my targets?

Card Index:

- Have I entered my own experiences?
- Are there any data I do not have yet and which I wish to elicit systematically today?

Aims of the Visit:

- Have I on the basis of point 1-3 established the possible aims?
- Are these realistic (too high, too low)?
- Can I qualify my aims (previous years' figures!)
- Do I realize why I want to achieve this aim?

Presentation Goals:

1. What did I achieve on my last call?
2. What did I suggest to the customer to clarify, undertake or try for today's visit?
3. What products does the customer prefer?
4. What problems does the customer have?
5. Which products of competitors does the customer use?
6. What problems do I want to clear up during my visit?
7. What quantities?
8. What do I have to offer? In what quantities?
9. What suggestions will I make? What will be my arguments?
10. What do I hope to achieve today (my goal)?
11. What am I giving the customer?

12. What will I suggest to the customer to undertake, clarify or try for my next visit?

Key areas of Sales Approach:

- Research the customer
- Research the product
- Research the relationship

Opening the Sales Call Statements:

Introduction:

Generally accepted is the fact, that if you want to be successful in selling ideas, products or anything else you have to get the attention and/or curiosity of the customer as soon as possible during your conversation.

It is a matter of seconds, in the beginning, where you immediately have to be clear and directive towards the reason(s) of your being there. As long as you don't reach interest in the customer, you won't reach any commitment and restarting during a sales call cost you a lot of energy and can be boring or even irritating.

The best suggestion is to write down word by word your first one, two, three sentences to be sure of the "catching start". Try it…and change them, as they don't seem to have the right effect: Attention, Interest, Open ears and eyes…you know…you can see a lot of signals.

Opening the Sales call Statements:

Open probes

When quickly needs/opportunities are expected.

Purpose statement

A bridge to position your purpose to get to the point immediately.

General benefit statement

Assumed customer problem/need and a general benefit to answer that need.

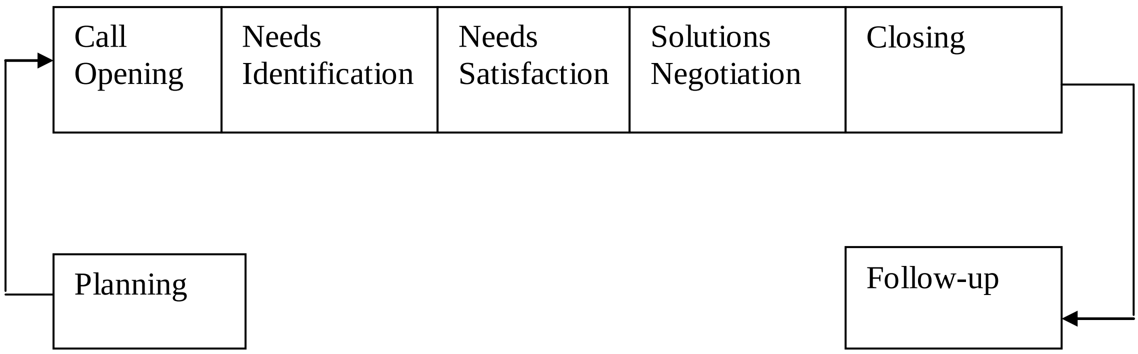
Asking for advice or information

To gather information about new procedures, indications, etc.

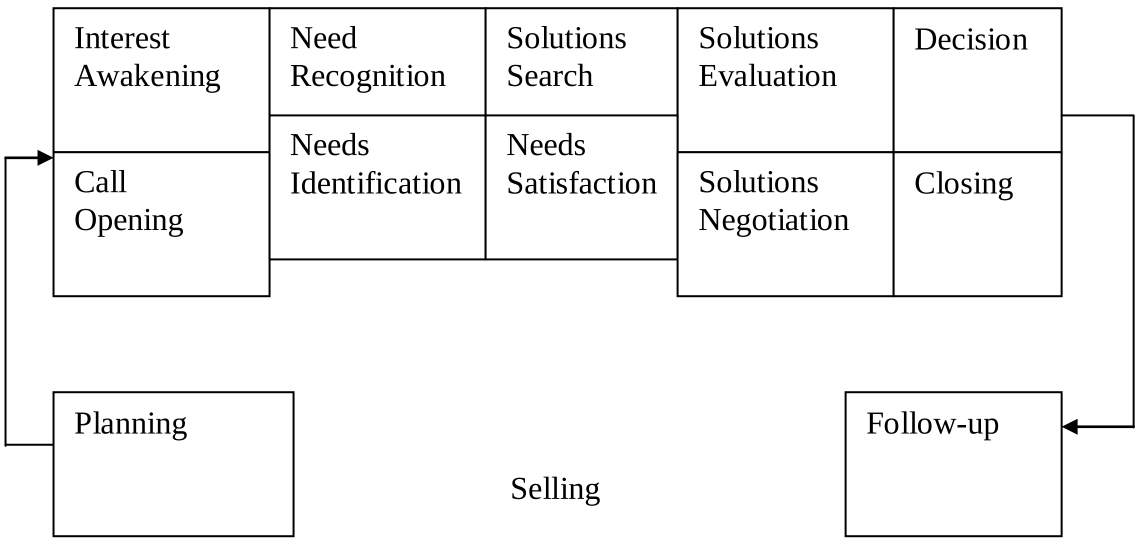
The Selling-Buying Process and the Gordon Model:

Interest Awakening	Need Recognition	Solutions Search	Solutions Evaluation	Decision

The Selling Process:



The Selling- Buying Process:



Interactive Listening:

“Know how to listen, and you will profit even from those who talk badly.” Plutarch

Purpose:

- To recognize when you are listening with full attention and concentration and when you are not.
- To recognize and overcome the common barriers to listening that get I the way of full attention and concentration.
- To listen interactively for understanding by asking questions to build a clear, accurate and complete picture of the customers needs.
- To listen interactively for rapport by giving signals of attention to build your relationship with the customer.

Key Points:

- Building business relationships based on listening-skills.
- Creating trust and confidence.
- Be aware of three different attention-levels when listening.
- It is not always possible to maintain level 1 listening. Different barriers can cause you drift out.
- The best way to handle barriers is twofold: Remove it if you can. Or listen through it if you can’t. Self-discipline is of vital importance, too.
- Questions
- 1.What are sales force training?
- 2.why sales force should undergo training?
- 3.What are the advantages and disadvantages of sales force training?
- 4.What are the different types of training imparted to the sales force?
- 5.How do we evaluate the success of sales force training?

METHODS OF MOTIVATION

In additions to the remuneration, certain types of encouragement are needed. A few of them are

1) **Sales contest:**
By sales contest, free mean a competition among the salesman, by maximizing their effort to boost up the sales, to earn the name of superior salesman. The aim of the contest is to increase the sales, to develop a team sprit, boosting the morale, encouraging to work hard, fast moving or slow moving items, to over come the depression period etc.

The successful salesman at the contest bags the prize-case, incentive, merit certificate or free travel etc.

2) <u>Convention and meetings:</u>

This is a group motivation. All employees meet at a place. Everyone meets and contacts fellow workers. Exchange of ideas and opinion take place. Salesman have a close touch with the fellow workers and executives. Problems are solved and new policies are developed.

3) <u>Recognition and honour:</u>

Recognition and honour- title such as, " Superman for the year'', medal or trophy, congratulatory greeting, appreciation letter etc., Greatly encourage the salesman to do more hardwork. These recognition and honours satisifiy a salesman greatly.

4) **<u>Personal meet</u>**:

The performance of the salesman can be known from their reports. Further, to have more effect on the sales, salesmen may be facilitated to meet the sales manager in finding solution to their typical problems. The sales managers give satisfactory solution to one's problems or discusses then to arrive at a satisfactory solution. This type of personal need is a good encouragement.

5) <u>Promotion:</u>

By considering abilities and experience, as a stimulation policy, the salesman are promoted to a higher post on a higher salary. There by status increases, self-respect increases, remuneration increases; and naturally, it is the best motivation of salesmen. Further promotion is aimed at through further and more hard work.

6) <u>Personal Communication:</u>

It is always good for the sales manager to write personal letter to the salesman, solving the problem of the salesman, who is performing is work. The two-way flow of ideas, facts, opinions, feelings is good in shaping a goodwill and developing a high moral apart from confident and co-operation.

7) <u>Freedom:</u>

In performing his job, he should not be control at a high degree. It is necessary that salesman be given a reasonable degree of freedom in doing his assign job. The salesman should be permitted to do his job in his own pattern. Frequent calling fro reports should be avoided. Such things created a good stimulus and generated a feelings that the salesman job is important in the firm. When sales manager gives more responsibility to the salesman, the better is the result.

8) **Timely Information:**
Whenever a new product is introduced, a policy is change, a technique is adopted etc., The salesman must be informed, so that he can possess that latest news of his concern, which is a matter of pride for him. Some of the big firm, publish magazines, and bulletins which are meant for sales personnel's and contain all the informations. When the salesman is kept informed of all the changes-changes in products, policies, colour, prices, promotion, quality, guarantee sales-after-services etc., He can act as a latest salesman.

Training Methods

For imparting training to the salesmen, different methods are being used. Broadly, these methods may be divided into two:

1.Group Training

(a) **Lecture Method :** An expert or a lecture speaks to trainee-salesmen about the various aspects of selling. It consists of oral talk in a classroom. This system is widely used. The trainees listen to the lectures. The instructor invites questions and answer from them. To make the lecture more interesting, visual aids, demonstration, suitable examples have been added. This system is more economical, and is the easiest and quickest in imparting theoretical training to a group of salesmen. But it is difficult to evaluate the effectiveness of lecture method. This method can be used more effectively in continuing sales training programme to provide new information or changes in the policies of the firm. This may include seminars demonstrations etc., by expert salesmen.
(b) **Audio-visual Method** : In order to supplement the lecturing (telling) method, training programmes include the use of visual aids, such as films, slide postures etc., and are capable of making them more interesting.
(c) **Discussion Method :** This is a good method. Here an actual case or an imaginary case is given as a problem to be solved, to the different groups. The case or the problem may typed or printed. Each group is asked to understand the problem and draw a conclusion. After this, the

different conclusion or suggestions are analyzed collectively, under the leadership of the instructor, in drawing generalization from each case or problem. This type of training enables the salesmen in correcting their own views. It is suitable for a small group. It is slow and costly.

(d) Conference Method : Sales conferences and sales meeting are get together of concerned staff, either weekly, fortnightly or monthly. The thought of various persons are pooled in the conference. Meetings or conferences have motivating effect as the participants are given chances fot creative thinking and to express their views. To make the conference more interesting, dramas, demonstrations etc., are included. Topics like, sales policies, facing competition, publicity ideas, dealing with complaints etc., dealt with. And these will facilitate the participants in broadening their outlook and ideas. But this type of meeting or conferences is not suitable for new recruits.

(e) Role Playing Method : Role playing is a newly developed method. The sales trainees are made to act out roles in contrived problems. The trainer explains the situation of the problem and assigns the role of salesmen and customers of different character to the sales trainees. Each one act to assigned role. The trainer watches the role played each and discuss their weakness and strong points. A few may be selected to act the play, while others may watch it. Thus, salesman have chance to see and understand the idea in different situations. It is not suitable for new recruits.

(f) Panel Method : Members in the panel group may permanent. The members who are expert in the panel, discuss the problem, and solution are passed to the sales trainee groups, who may have further discussion. This system is ineffective.

(g) Round Table Method : It is similar to the discussion method. It consists of few members. The salesmen sit around a table along with a good discussion leader. They deal with the problem of actual cases. Every participant t6ake part freely in discussing the problems and solutions. Exchanges of new ideas take place advantageously.

(h) Brain Storming Method : Under this method more or less, similar to round table conference, persons sit around the table. The leader tables the problems for discussion. The sales trainees have to understand the problems and find the solution. The solutions are analyse by the leader or tested by the panel of experts. This method practically fetches no value.2.Individual training

a) **On-the-job Training :**

Under this method, a new salesman is placed under an experience or senior salesman who trains him. First the coach explains the sales techniques under different situation.

He also take the trainee along with him on his rounds and gives him chance to observe the dealing with the customers. Doubt of the trainee are also clarified . Than the coach along with the trainee calls on customers: the sales trainee is allowed to deal with the customer and coach observed the performance. If any weak point or short-coming is form in the sales trainee, they discuss how to overcome them. After some time ,the sales trainee becomes a trained and independent salesman. This system is good for traveling salesman.

b) **Sales manual:**
It is compiled text book it contains details of the firm and product, job description sales policy, opinions or reports required for reference. Purposes etc. Generally, it contains many problems it suggestive solutions. A copy of the book is given to salesman to go through it and understand the ideas. It works as a ready-reckoner.

c) **Intial or Break-In training:**
New recruits are given an orientation training so as to know about the company and its product he may be allowed to work for some time in the firm itself to gain sufficient information about the products. After that he is send to work in his field.

UNIT-III

LESSON-3.1

Physical Distribution

In this lesson

The Concepts about the following will be discussed:

Physical Distribution- meaning

Physical distribution : Comparison between Distribution Management, and Logistics & Supply Chain Management

Main functions of physical distribution

The forces that affect physical distribution

Systems approach to physical distribution

INTRODUCTION

Marketing involves a complex series of relationships and interactions among the different divisions of an organization. Distribution shows us how this entire process can be managed so as to increase the efficiency of the organization. It is a manufacturer's relationship with his suppliers that determine the field in which he has a competitive edge, over his rivals, and the benefits customer can reap from his company.

Distribution covers a range of operations and activities depending on this relationship. It not only involves the co-ordination of supply to the final consumers, but also movement of a product within and outside the organization. In other words, the term distribution encompasses all movements of the product. It has been defined by Mossman and Norton (1965) as, the operation which creates time, place and form utility through the movement of goods and persons from one place to another.

This can be summarized as

Distribution Management = Physical Distribution + Distribution Channel

It is only in the last 20 years or so that the concept of physical distribution has emerged and developed into a separate, recognizable management function. Like many other new business concepts, physical distribution also originated in US. It is founded on a practical fundamental principle, i.e. the cost of storage and movement are closely interrelated and by dealing with them as a single unified activity, can we achieve or realize the true potential of each. In a crux it can be said that physical distribution aims at seven R's-the Right product, in Right quantity, in Right condition, at the Right time and Right place, for the Right customer at the Right cost.

Different Authors Definitions

Distribution is a word, which is used in different ways, in different contexts. When it is used to refer to the whole process of selling and moving goods to customers, it can be taken to refer to storage (warehousing) and movement of goods from the point of value addition to that of delivery to the ultimate consumer.

Let us look at some technical definitions of the term.

Charles A. Taff (1978) defines physical distribution as management of movement, inventory control, protection and storage of raw materials and processed or finished goods to and from the production line.

While the American Management Association (1960) defines physical distribution as "Moving of finished products from one end of a production line to customers",

Concept of Physical distribution is a broad range of activities concerned with efficient movement of finished goods products from the end of the production line to the consumer and in some cases includes movement of raw material from the source of supply to the beginning of the production line.

These activities include: Freight transportation, Warehousing, Material handling, Protective packaging,Inventory control, Plant and warehouse site selection, Order processing, Market forecasting and Customer service.

Thus it establishes that physical distribution is concerned with the physical movement of goods from the producer to the consumer.

In most business firms whether they are retail, wholesale or manufacturing unit, distribution figures as a major functional area. Business involves cost only until the product is in the hands of the consumer. To accomplish this transfer, two kinds of movement occur: The movement of goods to people, and the movement of people to goods. Moreover the product may pass through many hands and be stored for short or long periods before being delivered to the consumer. Thus, the structural elements of physical distribution system are

· Transportation · Storage · Material handling ·Information processing

Few management concepts have excited more interest, over the last decade, than physical distribution management. Some authors describe physical distribution as the broad range of activities within a company, concerned with efficient movement of goods and raw materials both inwards to the point of manufacture, and outwards, from the production line to the customer. Others define physical distribution management as that part of management which is responsible for the design, administration and operation of system to control the movement of processed goods only Physical distribution management thus consummates with the satisfaction of consumers' demand, barring time and place, and storing of goods and their ultimate transportation so as to fulfill the target customer's needs

Table 1.A Difference between Physical Distribution and Logistics

1.Management of movement, inventory control, protection and storage of raw materials and of processed or finished goods to and from the production line.	1. Process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw material, in-process inventory, finished goods and related information from point of origin to point of consumption for the purpose of confirming customer requirements.
2.Narrow scope than of logistics.	2. Larger scope.
3.Concerned with creation of time and place utilities.	3. Creates time, place, form and possession utilities.
4.Deals with outbound activities only.	4. Deals with both inbound and outbound activities.

Logistics also includes receiving and processing orders, releasing goods from inventory, transporting finished goods to ultimate consumers while trying to achieve maximum customer satisfaction within the distribution channel. This, again, makes it sound similar to Supply Chain Management, in short, SCM.

SUPPLY CHAIN MANAGEMENT

Supply chain is the network of organized activities that are co-coordinated, or in other words, upstream and downstream linkages of different processes and activities, so as to distribute the products, through channels, ultimately to the consumers. For example, a shirt manufacturer is a part of a supply chain that extends upstream through the weavers of fabrics to the manufacturer of fibers and downstream through distributors and retailers to the final consumers.

SCM is a philosophy of business, based on the idea of partnership.

It believes that if partnership is maintained between a marketing channel and the entities with the channel, it would increase the efficiency of the channel. A well-planned logistics system helps an organization achieve

- Lower costs
- More sales
- Prompt delivery
- Increased goodwill
- Improved customer confidence
- Competitive edge

A logistics system should always aim at providing a fast and effective response to the ever-changing market environment, accompanied by changes in the inventory levels, product demand, characteristics of supply chain, distribution channel, technology, competition, government policies and so forth. To ensure efficient management of these activities, logistics should maintain the balance of the supply chain.

SCM Entails

- Management of flow of goods from supplier to final user;
- System-wide co-ordination of product and information flows; and
- Development of relationships and integration of all activities that provide customer value through distribution channel.

TABLE 1.B Difference between Supply Chain Management and Logistics

SCM

1. Not only seeks to create single plan for flow of goods and information through business, but also aims to achieve linkages and coordination between process of other entities in the chain, like suppliers, customers and so forth.
2. Defined as management of downstream and upstream relationships to ensure superior customer satisfaction to the organization.

Logistics

1.A function which is 100% planning oriented.

1. Seeks to create a single plan for flow of product and information through business. But it is planning oriented.

It is defined as a process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw material, in process inventory,

2. finished goods and related information from point of origin to point of consumption to fulfill customer requirements.

Need for Physical Distribution

Reasons for management's interest in physical distribution are many. But the most significant can be listed as follows. Brief Discussion on the needs and functions of physical distribution.

Management Conflicts

Traditionally, before the physical distribution concept came to realization, companies allotted sub-functions to all the departments. The hierarchy and their functions are as follows.

TOP MANAGEMENT

1.Production

2.Marketing And Sales

3.Finance & Control

Production department try to minimize production cost through high outputs at a constant rate, sending as much as possible out to the depots. Sales department prefer to have stocks at times of high demands and certainly not to face scarcity stocks. Finance and control department like to reduce total cost and in the form of investments in stocks.

Rising costs

The reasons for rise of distribution costs are

1.Wages of transport and warehouse staff has been rising rapidly.

2. Competition has increased drastically in the fast few years.

3.Consumers now a day expect more frequent deliveries from the supplier, which in turn increases the distribution costs.

4.Moreover, in the recent years trade has become internationalized. This means goods have to move across greater distances and this increases the transportation costs.

Cost-reduction Opportunities

Peter Drucker described physical distribution as the "last frontier of cost reduction". Using skilled management and modern technology for inventory management, inventory processing and transportation can reduce cost.

Physical Distribution as a tool to Marketing

The concept of marketing management states that customers should be the core consideration of every activity. The organization should aim at winning consumer trust and satisfaction. Physical distribution helps marketing management achieve this objective. It ensures customer satisfaction through faster delivery of goods in a least damaged form, greater stock availability, and service in new geographical areas. Also it allows managers to evaluate distribution channels and their costs efficiently, and thereby enable discount sales and satisfy consumers.

Customer Service

The technological revolution and increased competition has led to customers becoming more and more demanding in terms of overall company performance. As a result, most of the goods are now in the category of convenience goods. Thus, the manufacturer has to gain a competitive edge over others on the basis of non-price factors like customer-service. Customer service has many facets like in time delivery, after sale services, regular feedback, prompt complaint redressal and so forth. For example, a customer service standard for the above-mentioned provider of customized computers might be that 60 percent of all PCS reach the customer within 48 hours of ordering. It might further set a standard of delivering 90 percent of all of its units within 72 hours, and all 100 percent of its units within 96 hours. A physical distribution system is then set up to reach this goal at the lowest possible cost. In today's fast-paced, technologically advanced business environment, such systems often involve the use of specialized software that allows the owner to track inventory while simultaneously analyzing all the routes and transportation modes available to determine the fastest, most cost-effective way to delivery goods on time.

Time Constraints

One of the most important side effects of increased competition in the market is related to the time factor. Increased competition has led to shorter product life cycles, and consequently revolutionary changes in the consumer attitudes and loyalty concepts.

The decision of an organization for adopting physical distribution system, as a part of their organizational management is further strengthened by various other functions performed by physical distribution.

Functions of Physical Distribution

1. Management
2. Warehousing
3. Industrial packing
4. Material handling
5. Transportation
6. Order processing and location analysis

These are explained below

Transportation Management

Transportation is essential in Physical distribution. It deals with both movements of raw materials to the plant and of semi- finished products or finished product to the market.

Problems in transportation services can lead to a company retaining the inventory for several days, more than physical distribution had planned for. This increases inventory-carrying cost and decreases the number of times inventory is converted into cash. Thus, efficient transportation planning and management is a prerequisite function of physical distribution. There are five basic modes of transport such as **rail, air, road, pipeline and waterways**. **Brief description of these is given below.**

Railroads—long distance shipping

Railroads continue to present an efficient mode for the movement of bulky commodities over long distances. These commodities include coal, chemicals, grain, non-metallic minerals, and lumber and wood products.

Air freight—fast but expensive

Because of the relatively high cost of air transport, small businesses typically use air only for the movement of valuable or highly-perishable products. However, goods that qualify for this treatment do represent a significant share of the small business market. Owners can sometimes offset the high cost of air transportation with reduced inventory-holding costs and the increased business that may accompany faster customer service.

Trucking—flexible and growing

The shipping method most favored by small business (and many large enterprises as well) is trucking. Carrying primarily manufactured products (as opposed to bulk materials), trucks offer fast, frequent, and economic delivery to more destinations in the country than any other mode. Trucks are particularly useful for short-distance shipments, and they offer relatively fast, consistent service for both large and small shipments.

Pipelines—specialized transporters

Pipelines are utilized to efficiently transport natural gas and oil products from mining sites to refineries and other destinations. In addition, so-called slurry pipelines transport products such as coal, which is ground to a powder, mixed with water, and moved as a suspension through the pipes.

Water carriers—slow but inexpensive

There are two basic types of water carriers: inland or barge lines, and oceangoing deep-water ships. Barge lines are efficient transporters of bulky, low-unit-value commodities such as grain, gravel, lumber, sand, and steel. Barge lines typically do not serve small businesses. Oceangoing ships, on the other hand, operate in the Great Lakes, transporting goods among port cities, and in international commerce. Sea shipments are an important part of foreign trade, and thus are of vital importance to small businesses seeking an international market share.

Intermodal services

Small business owners often take advantage of multi-mode deals offered by shipping companies. Under these arrangements, business owners can utilize a given transportation mode in the section of the trip in which it is most cost efficient, and use other modes for other segments of the transport. Overall costs are often significantly lower under this arrangement than with single-mode transport.

Of vital importance to small businesses are transporters specializing in small shipments. These include bus freight services, United Parcel Service, Federal Express, DHL International, the United States Postal Service, and others. Since small businesses can be virtually paralyzed by transportation strikes or other disruptions in small shipment service, many owners choose to diversify to include numerous shippers, thus maintaining an established relationship with an alternate shipper should disruptions occur. Additionally, small businesses often rely on freight forwarders who act as transportation intermediaries: these firms consolidate shipments from numerous customers to provide lower rates than are available without consolidation. Freight forwarding not only provides cost savings to small businesses, it provides entrepreneurial opportunities for start-up businesses as well.

While making transportation decisions, physical distribution
Managers must consider
-Cost
-Dependability
-Possibility of loss and damage associated with the mode of transport

Management directs its attention to the areas where the cost of activity is relatively high. Since transportation expenditure is by far the most significant component of physical distribution cost, its management is an important function of physical distribution.

The physical distribution manager thus should have knowledge of

- Various modes of transport
- Services and routing offered by each mode
- Privileges granted by carriers on certain kinds of shipment
- Rates charged by various carriers
- Negotiation ways of various carriers

- The bottlenecks in transportation through various channels.

Inventory Control

Business firms usually believe that if too high an inventory level is maintained then they would have to bear a very high inventory carrying cost and also a high risk of obsolesce. On the other hand, if too Iowan inventory is maintained, then it would result in high restocking and production cost, as balance between the two extremes need to be achieved. This can be done by related factors like movement and storage.

This function of physical distribution is called inventory control. It deals with the determination of optimal producers for procuring stocks of commodities to meet future demand. The decision concerning when and how much to order is a matter of balancing various conflict cost functions. Inventory control aims at minimizing inventory cost, subject to demand and service constraint.

Inventory control guides a firm on factors such as

1. How much to order?
2. When to order?
3. How to control stock-outs at lowest cost?

Warehousing

1. Warehousing refers to storing products while they wait to be sold. This function is necessary, as production and consumption functions rarely match. Organizations use either warehouses or distribution centers to process their products. The choice is made in regard to the transportation cost, amount of customer service and level of inventories. A company, if it chooses to maintain a

warehouse, has to go for either a public or a private warehouse. Private warehouse offers greater flexibility in design to meet the storage and handling need. It also provides more control over the activities carried on in the warehouse. Public warehouse requires no fixed investment by the firm and offers location flexibility and ability to increase the warehouse space to cover peak requirements. Now-a-days manufacturers often opt for distribution centers to store and distribute goods. A distribution center is a large, highly automated warehouse, designed to receive goods from various plants and-supplier.

Industrial Packaging

Packaging cost is a part of the total cost of production. Container manufacturers, carriers, trade associations and government agencies are continuously working for improvements in packaging techniques. Physical distribution department, in order to fulfill this function, has to work in co-operation with sales and manufacturing department, and deliver the products in their best quality and condition in the consumer hands. Thus, a systems approach is required to enable one department to share its specialized knowledge with the other departments, and in turn, fulfill the objective of the organization.

Material Handling

Efficient and careful material handling methods in factory and distribution warehouses can contribute much to customer satisfaction. Proper material handling helps

1. Decrease the damage;
2. Maintain the quality of storage;
3. Facilitate order processing; and

4. Move right goods at right time to make them available to right customers.

All the more, material-handling function of physical distribution helps to reduce the number of staff required for managing inventory and also, the dangers of obsolescence. This further reduces the maintenance cost.

The need for material handling had always been there at various stages of production and distribution. The cost of such activities can represent anything up to 50 per cent of total production cost). Physical distribution aims at reducing this cost through development material handling techniques. These developments have been phenomenal in recent years. The improved techniques are not confined to production only, but have also been carried forward to other phases, dealing with physical movement of goods. The benefits of these improvements are therefore, not only reaped by manufacturers but also by consignee, as he too gets his products in perfect condition and in a shorter time.

Order Processing

Time to complete the activities of the order cycle is at the very heart of customer service. It has been estimated that the activities associated with order preparation, transmittal, entry, and filling represent 50 per cent to 70 per cent order cycle time in many industries. Due to this, activities involved in processing company's orders are receiving more and more management attention. As it is closely related to sale and production, order processing should also be a part of physical distribution department. Effective order processing should begin with transmission of orders information, continue uninterruptedly through stock checking, accuracy checking, credit checking, back ordering, transcripting and billing, to move on to order-filling. Along the way, it should also have an efficient order status reporting system. With so many departments involved in processing orders, delay can occur at any stage. It is the responsibility of physical distribution manager to see that sluggishness does not occur.

Locational Analysis

With the continuing growth of individual units of economic activity, there is greater expansion of organization, and new plant locations must be carefully chosen. Moreover, trend of decentralization of industries have further increased emphasis upon the site location that best fulfills the needs of the customers and companies. Physical distribution performs this function after analyzing aspects like market area, transportation facilities, transportation rates, and public and private warehouse facilities.

Management of Information Flow

One of the solutions required to solve transportation, warehousing and packaging problem, is information. By following some rulers of model building and simulation on the computers, many structural hurdles of the aforementioned nature can be overcome before practical application is made. Computers reduce the bulk of information to a more compressed form, thereby help quickening decision-making process of transportation, material handling, inventory control, warehousing and the like. This helps in formulation of strategy and so an important function of physical distribution.

The Environment of Physical Distribution

The form in which physical distribution is implemented in an organization should be proportional to the marketing problems faced by the organization. Market forces (Environment) that affect physical distribution in general are

- Demand characteristics
  1. Population

2. Income
3. Demand variations

- Product characteristics
  1. Value of the product
  2. Seasonality of the product
  3. Product line

- Dynamic environment.

Demand Characteristics

The level of demand in a market determines the intensity /importance/ function of physical distribution department. Demand quantitatively depends upon the following factors:

1. **Population.** The individual consuming units are unevenly spread over regions, states and localities of the country. The level of distribution facilities in an area is proportional to the density of population in that area. Large markets offering a large amount of potential customers influence well-developed distribution facilities. In such markets, fixed cost may more easily be distributed to each unit sold. Thus, we can state that physical distribution facilities entail warehouse and branch plant facilities in a large population area. In smaller markets, recovering fixed expenses are difficult, so physical distribution facilities will be small. Direct shipment to customers in these areas may, therefore, be beneficial.

2. **Income.** Geographic distribution of income tends to follow population growth patterns. The more the disposable income of population in an area, the more will be the demand of a product. Increased demand means there will be more distribution facilities available in that area. With increased demand, ultimately, the company can recover fixed cost of various distribution activities. Income and population are thus two major determinants of plant and distribution facilities location.

3. **Demand variations.** Variations in the level of demand are the result of quantitative elements of population and income being modified by qualitative influences. These affect the kind of physical distribution system required for individual industries. The qualitative influences are gender, education, social status, culture and regional characteristics as for example, the southern part of India is not likely to show the same demand for woolen clothes as shown by North India.

Physical distribution system would be similar for these goods in all regions, states or localities. Contrarily, the widest variations in demand occur for luxury items, physical distribution system for such items show diverse patterns. Therefore, better control can be gained over physical distribution system, if there is a stable demand.

Product Characteristics

The ability of the product to bear physical distribution expenses will determine the characteristics of physical distribution system.

1.Value of the product.

Value of a product has great significance for the physical distribution system design. It exerts' influence on inventory levels and transportation costs. If the value of the product is perceived to be high, then the inventory cost will be very high and vice versa, for example, in steel industry coal and iron ore stocks have a low value. Thus, large piles of it are found in the open in the factory premises. High value whereas, is placed on cameras, watches and gold items and thus they are stored in secured warehouses incurring higher inventory carrying costs. At the same time, if the value of the product is high, then the emphasis will be on premium transportation with a minimum quantity, and vice versa. In steel industry, train in open racks transports coal with a lesser focus on security and theft prevention. In contrast, in gold and diamond industry the raw material are transported by air in a properly sealed and highly secure environment.

2.Seasonality of production and perishability.

The forms of transport, storage and inventory patterns depend on the seasonality of production and demand patterns, for example, when there is a high degree of perishability, products must be shipped to market or processed immediately. In this case, canneries and processing plants have to be located near the point of production. Later the canned items are dispersed to storage points where products are properly assorted for final disposal to markets. The amount of shipment to the storage units is large, but small to retail outlets. Distribution system is, therefore, proportional to the seasonal production patterns. In certain cases where perishability is not a problem, seasonal products can be stored under natural conditions.

3.Product line.

The personality of product line influences the physical distribution system. The degree to which products are complimentary in a marketing and distribution sense, allows greater possibilities in conjoining them into one physical distribution system. The degree to which they vary indicates each relatively homogeneous line must be considered independently. Different personalities possible are:

Single product-oriented product line
Multiple but closely related products
Multiple but separate products

Today's competitive environment, rarely does a company have a single product-oriented product line. In case a company has multiple but closely related products, transportation, warehousing and packaging requirements of the products will be more or less in the same level. But the inventory costs will, however, be high, since a wide range of products has to be stored, for example, automotive industry.

Maruti has multiple but closely related product line. It produces cars, jeeps and vans for sale, and their parts for repairs. The end point of sale of both is varied. One is through authorized dealer. While the other is sold to authorized dealers and repair outlets and service stations. Therefore, the company has to adopt two different physical distribution systems. In addition, it should consider wide varieties of styles, colours and accessories that are possible in a car.

To satisfy a customer, manufacturer has two options-either to produce on order or to anticipate consumer demand. Dealers adopt a sound middle road: they maintain inventories of certain models, and also produce on order. This leads to high inventory cost but economical transportation costs, and the transport rates are not proportional, and in the case of car manufacturing, to the colour or shape of the vehicle.

When products are multiple and not related to each other, analysis becomes complex, for example, GE manufactures products ranging from light bulbs to turbo generators. This means limited opportunities exist for similar distribution channel.

Dynamic Environment

Dynamic environment refers to the shifts in market values and changes in the competitive structures in an industry. These shifts influence the population and income changes in an area, which in turn influence the physical distribution system.

Thus, it is clear that the market forces described above, affect the shape, size and nature of physical distribution system adopted by an organization.

The Physical Distribution Concept: A Total System Perspective

The physical distribution concept emerged from a study conducted forty years ago. The concept can be described as a cost-service integration backed by an integrated physical distribution network that is aimed at minimizing the total cost of distribution at a given level of customer service. The main components of total physical distribution system are:

- Total cost perspective
- Understanding of relevant trade-offs
- The notion of zero sub-optimization
- Total system perspective

Total Cost Perspective

Cost of physical distribution means cost of performing various physical distribution activities, including cost of planning and managing a range of physical distribution activities, like transportation, distribution of finished goods, receiving, inspecting and storing goods. In brief,

TDC =Transport cost + Facilities cost + Communications cost + Inventory cost + Protective packaging cost + Distribution management cost

All the functions are necessary for converting inventories and satisfying customers. But the performance costs of these functions are high and an effort at reduction will be a futile attempt. This is where the individual cost control fails and total cost perspective succeeds. Total cost approach refers to the process of considering the cost of all the physical distribution elements simultaneously. It refers to tackling the cost of physical distribution as a whole, while trying to handle the primary functions of a physical distribution system, thus total cost perspective is an important component of physical distribution.

Trade-offs

Organizations moved towards total physical distribution concept after the realization that if the total cost and customer service implications of managing the distribution function as a complete entity were considered, then profit and competitive advantages were achievable. Normally, management when posed with the problem of increasing cost of distribution tries to solve it on the basis of activity center approach, i.e. by reducing the cost of the center, which is suffering from cost hike. As a result, the considerations, which impact decision on cost of other activity centers, are over looked.

Example: Decrease in transportation cost might lead to a proportionate increase in cost of inventory management system. It is due to these dangers of the piece meal method that total system approach is being adopted. The advantage of this is that management is able to identify and exploit the trade-offs in a situation. Trade-off analysis in physical distribution system is the evaluation of cost of each system component with the objective of determining the combination of components that provide a minimum total cost for a specified customer service level. This means trade-offs occur when management incurs cost in one activity center as a part of strategy to achieve benefits from another activity center. The aim is to achieve a net gain. Trade-offs in physical distribution system occur in - four main categories.

- Intra-activity trade-off
- Inter-activity trade-off
- Inter-functional trade-off
- Inter-organizational trade-off

Intra-activity trade-off. When a trade off occurs within an individual activity of physical distribution system it is called intraelement trade-off, for example, decision within transportation modes. Decision to use one's own trucks or of a transportation company is an intra-activity trade-off. Decisions between choosing public or private warehousing can be a good example of this trade-off.

Inter-organizational trade-off. This refers to the category of trade-off between manufacturer and other organization involved in creation of place, possession and time utilities for the manufacturer, i.e. intermediaries, transport contractors, shipping and warehouse agents. Manufacturer should be concerned with the distribution channel members and should try to establish strong relations with these members.

This is because; if a channel partner were inefficient the customer would attribute this to the manufacturer. Thus, management should ensure co-ordination to all the external organizations and capitalize on trade-off opportunities.

Zero Sub-optimization

This is a term applied to the situation in which one distribution function is optimized resulting in the impairment of another distribution functions. Say, for example, trying to minimize inventory costs by maintaining excessively low inventory levels can lead to stock-outs, lost sales time, increased transportation and loss of customers. This leads to defacement of organizational efficiency. Total distribution concept thus minimizing aims at optimization or ideally reach a zero sub-optimization level.

Total System Perspective (Supply Chain Management)

This is an extension of physical distribution concept and a key for managing the physical distribution function. It deals with performing trading-offs and other cost performing functions in the entire marketing channel. The process is tedious and time-consuming though it helps a company achieve its objectives. It deals with establishment of channel partnerships and strategic alliances and streamlines the physical distribution system On the whole, it helps in reducing inefficiency in the physical distribution system.

EXERCISES

1. Briefly describe about (a) Physical distribution (b) Supply Chain Management in an organization?
2. Explain about main functions of physical distribution in an organization?
3. Discuss various levels of trade-offs in physical distribution system
4. Explain in detail, the total physical distribution concept.
4. What are the external and internal environmental forces, which influence the physical distribution system in an organization?

UNIT-III

LESSON-3.2

At the end of this chapter, you will be familiar with

Distribution Channels

Role of marketing channels

Various channel functions

Design of efficient channel distribution strategies and structures

Channels of Distribution

INTRODUCTION

Before the product is ready to be marketed, the management should determine the ways which will be used to send the product to the market. This means establishing strategies for product distribution channels and physical distribution. Distribution channel is the first part of PLACE MIX. Managing a distribution channel often begins with a producer. Therefore, we can discuss the problems, opportunities and management of a distribution channel in this chapter, from a producer's viewpoint.

DISTRIBUTION CHANNELS

Distribution channel comprises a group of people and firms involved in the transfer of title of ownership (of the product), as the product moves from producer to ultimate consumer or a buyer. A channel of distribution includes producer, consumer as well as many middlemen such as retailers and wholesalers.

American Marketing Association defines distribution channel as:

the structure of intra company organization units and extra company agents and dealers, wholesalers and retailers, through which a commodity, product or service is marketed.

In the words of Kotler, channel is a set of independent organizations involved in the process of making a product or service available for use of consumption.

Thus, distribution channel in the marketing system seeks to satisfy the needs and wants of target users and objectives of various parties involved.

A particular channel extends to the point till significant changes are made to the product form. For example, when wheat is reaped from the farms the distribution channel is different, but when it is ground into flour, the product form changes, and thus the channel requirements will also change. Thus a different type of distribution channel comes into existence.

The channel for wheat will be

Farm →Middleman → Flour mill

Channel for flour will be

Flour mill →Retail outlet → Consumer

Other intermediaries that can participate in distribution channel are banks, insurance companies, storage firms and transportation companies. But as they do not take the title/ownership of the goods, they are not formally considered as the distribution channel.

Role of Marketing Channels

The main question that arises is why does a producer hire an intermediately especially, when it means sharing market control in terms of deciding how and who the products are sold to in the market.

Channel Functions

Explicitly stated, channel works as a means of moving goods from producers to consumers. It overcomes time, place and possession gaps and provides goods and services to people who want them. Main functions performed by the channels are:

Information Gathering

Information about potential and current customers, their behaviour, competitors and other forces which affect the business are gathered by channels.

Consumer Motivation

Channels develop and disseminate persuasive communications to motivate consumers in buying the product. Being in direct touch with the consumers, they know what turns consumers on and what turns them off.

Bargaining

They reach agreement on price and other terms with the consumer on behalf of the producer so that transfer of ownership can take place.

Placing Orders

Intermediaries place orders with producers on behalf of consumers, for the products they need. Later they sell these products to the consumers on terms acceptable to the producers. Thus they bridge the gap between producers and consumers, who are at extremes.

Financing

Intermediaries finance inventories at different levels of marketing channels. They provide funds to the producers by decreasing the time required to convert inventory to cash.

Risk-bearing

Intermediaries also share risks connected with carrying out channel work, thereby reducing the burden on the producer.

Inventory Management

Intermediaries also provide successive storage facilities and movement of physical products to the producers. This enables a producer to redirect their limited factors of production towards other systems.

Services

Intermediaries offer specialized product services, including repairing service to the customers on behalf of the producers. The two main categories in which services are provided by the intermediaries are:

1. **Pre-sale services**. Channel members reduce the number of contacts a manufacturer needs to make with the customer before the sale of his goods. An intermediary can perform many activities for the producers like pricing, packaging, grading or assembling products to suit the requirements of final consumers.
2. **Post-sale services**. Channel members facilitate exchange by undertaking tasks such as transporting goods to their ultimate destination and disbursing money to different systems in the organization. Also, intermediaries provide after sale services and installation to the consumer on behalf of the producers.

Sales Channel

It is used to perform motivational, informational, bargaing and finance functions.

Delivery Channel

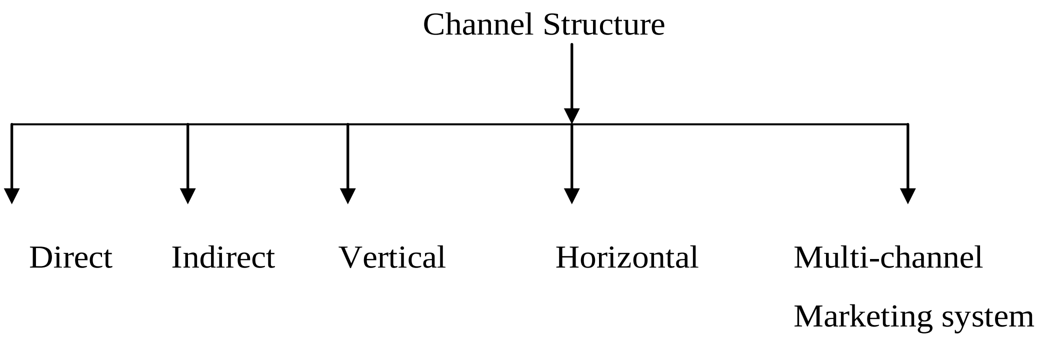
It is the transfer of Physical products i.e possession of the product

Service Channel

This Channel performs after sales services. This concept is best explained by the example of an E-brand (amazon.com) . Amazon uses telephone and internet as sales channels, express mail services as delivery channel and local offices as service channel

CHANNEL STRUCTURE

Channel structure consists of a number of outlets that may be adopted in moving goods from manufacturer to customers. It can be illustrated as in Figure.



Each of these can be analyzed in the following sections.

Direct / Indirect Distribution Channel

A company may undertake to distribute its goods to customers or retailers without involving any intermediaries. This is referred to as a Direct channel which constitutes the shortest channel in distribution process. Manufacturers, in this case, do not rely on intermediaries. They directly reach their customers to sell their products. Examples of this sort are catalogue, direct mail, Avon, Tupperware, B2B.

Manufacturers → Consumers

Avon, Amazon.com, New pig, Amway and Service Master are some of the B2B exchanges which indulge in direct distribution (DDC).

Alternatively, goods may pass through one or more intermediaries such as wholesalers or agents. This is an indirect distribution channel (IDC). Most of the FMCG manufacturers have indirect distribution channel. There may be many large department or discount stores, to transact goods from manufacturer to customer.

Manufacturer→ Retailer→ Customer

Sometimes, there may be small retailers who rely on wholesaler for bulk amount of goods, to be sold to consumers requiring smaller quantities at retail outlets. Here, the channel constitutes.

Manufacturer → Wholesaler→ Retailer → Customer

For some goods like the farm products, the channel is like,

Manufacturer→ Agent→ Wholesaler→ Retailer → Customer

where the agent mediates between the farmer and the wholesaler. Direct and indirect distribution channels can be as in the following figure.

Direct	Indirect
↓	↓
Manufacturer	**Manufacturer**
↓	↓
Consumer	**Intermediary**
	↓
	Consumer

Structure of Direct and Indirect Distribution Channels.

Distribution channels do not remain standstill. In the dynamic environment of today, new wholesaling and retailing outlets emerge and thus new channel systems evolve. Some of such new channel structures are discussed here.

Vertical Marketing Systems

One of the most significant recent developments is the rise of Vertical Marketing Systems (VMS). In conventional channels which comprises of direct/indirect distribution methods, none of the channel members has complete or substantial control over other members. In other words, independence of the channel members was more important in these channels.

A VMS, on the other hand, includes various parties, like wholesalers, producers and retailers, acting as a unified system. It is a tightly coordinated distribution channel designed specifically to improve operating efficiency and marketing effectiveness. In VMS, there is nothing as one marketing function gaining more importance over the other. Instead, each function is performed, at its best, in unity.

VMS arose as a result of one stronger channel member attempting to overpower other weaker members in order to avoid conflicts that arise when the channel members pursue individual goals. Kotler points out that, VMS has become a dominant distribution channel in the US, serving 70 to 80 per cent of total market. There are three types of VMS.

Vertical Marketing Systems

Corporate Administrator Contractual

FIGURE Types of Vertical Marketing Systems.

1.**Corporate vertical marketing systems**. A firm at one level of channel, owns firm at the next level or subsequent levels or it may own an entire channel. VMS here, combines successive stages of production and distribution under single ownership. Vertical integration of operations gives higher degree of control to the manufacturer. Goodyear and Sherwin Williams own retail outlets. Similarly, certain manufacturers of food items have their own raw material supplying firms.

Corporate VMS → Bata→ total control Due to → Company ownership

Example of Corporate VMS.

2. Administered vertical marketing systems. This channel coordinates distribution activities through market and gain economic power from one channel member or from the shared power of two channel members, i.e. the co-ordination is through the size and power of one of the members. Manufacturers of a dominant brand will be able to secure strong trade co-operation and support from the sellers.

Administered VMS → GE→ Some control→ Due to Economic Power and Leadership

3. Contractual Vertical Marketing Systems : Under this system, independent producers, wholesalers and retailers operate on contractual basis specifying how they will try to improve effectiveness and efficiency of their distribution.

Contractual EMS → McDonald's → Strong Control → Due to Contractual Relationship

Example of Contractual VMS

Contractual VMS are further of three types as shown in the figure below.

Contractual VMS

Wholesalers sponsored Voluntary chains	Retailer Co-operatives	Franchise Organisation

Manufacturer firm- Sponsored retailer Franchise	Manufacturer Sponsored wholesaler franchise	Service- Sponsored retailer franchise

(a) **Wholesalers sponsored voluntary chains**: Wholesalers organize voluntary chains of independent retailers to help them compete with large organizations. This organization helps them compete with large companies on the basis of economies which arise as a result of standardization of selling practices and buying economies.

(b) **Retailer Co-operatives**: Retailer takes initiative and organize a new business entity to carry on business.

(c) **Franchise organization**. In this, a member called a franchisee links himself to one of the stages in production distribution process, for example, Dominos Pizza. Franchise organization can further be divided into three categories:

(i) **Manufacturer sponsored retailer franchise**. For example, Ford and Chrysler which license dealers to sell its cars.

(ii) **Manufacturer sponsored wholesaler franchise**. For example Coke and Pepsi license bottlers in various markets who buy its syrup concentrate and then carbonate, bottle and sell it to retailers in local markets.

(iii) **Service firm sponsored retailer franchise**. In this, service firm organizes a whole system for bringing its service efficiently to consumers. For

example, McDonald's, Burger King and Pizza Hut.

Horizontal Marketing Systems (HMS)

In this channel two or more unrelated companies join together, so as to have pooled resources to exploit an emerging marketing opportunity. This system takes place when a company lacks capital and the know how of production and/or marketing resources and is afraid of taking risks or venturing out alone. A good example is departmental stores/ hotels having arrangements with local banks to offer in-store banking. *Bath and Body Works* (a range of personal care products launched by Victoria's Secret) are distributed by *Open Secrets* and *Life Style Pvt. Ltd.* (a 50: 50 Joint venture of ITL group and Danabhai Jewellers) says a report in *A&M:* The companies might work together on a temporary or permanent basis or create a joint venture company.

Horizontal Marketing Systems → **Canadian AA** → some control → due to →Alliances

FIGURE Example of Horizontal Marketing Systems.

Multi-channel Marketing Systems (MMS)

In the past, many companies sold to a market through a single distribution channel. Today's more and more companies have started adopting multi-channel marketing system. Multi-channel marketing occurs when a company uses different channels to reach same/different market segments. This is done to ensure availability of right product at the right time, to the right consumer. Multi-channel is used when,

1. A same product is sold to different markets, for example, computers

to business and consumer markets.

2. Unrelated products are sold within a single market, when

(a) size of buyers varies greatly, for example, hotels sell packages directly to travel department of large MNC's but use travel agents to reach small business and consumers.

(b) geographic concentration varies across different parts of the market, for example, a company may use direct channel to sell product in a concentrated market area while indirect distribution channel, to cater to a sparsely populated area.

Multi-channel system is thus nothing but a channel, which is adopted and changed according to the characteristics of the consumers to ensure maximum satisfaction to the customers. Though these are main types of distribution channel, advances in information technology have opened up the virtual world, where the distribution channels are completely different. This needs to be considered.

The Internet

Electronic markets allow consumers to directly access manufacturers. As a result, distribution channels are undergoing rapid change. Days are long gone when large orders of high-value products 'slept' in a warehouse. In the context of Web or www, the meaning of disintermediation is extended to indicate the extinct of 'middleman', and he evolution of a more perfect commercial world where customers deal directly with providers, weeding out cost disparities and inefficiency. All the more, consumers have started appreciating the convenience and the cost savings associated with direct sales. Two business models of electronic marketing needs an understanding.

1. Business-to-Business (B2B). Businesses are finding that the Internet helps in cost savings and is more convenient for customers. Several of these electronic B2B merchants are well Cisco Systems known for their Internet operations. Cisco Systems Inc. gets Just under 60 per cent of its revenue from its Web site- about 1,000 orders and more than $11 million sales in a day. DELL Computer Corp. and Compaq Computer Corp. Many corporate buyers can earn a payback on their investments in under a year. The procedures for filling out requisitions, sending forms and logging information into the ledger can be automated, saving business postage, labour and processing costs. Some companies have noted substantial cost savings from their online efforts. The sources of these savings include automation of inventory, customer-service, product distribution, supply-chain and order-fulfillment functions. Automation is particularly valuable when suppliers have a broad array of products with fluctuating inventory levels and prices.

Business customers appreciate convenience and self-service, and typically know what products they want ahead of time. Many prefer using the low-costing Internet to check whether products are in stock 24 hours a day, seven days a week. This ease of use is why the Web has quickly attracted more interest than electronic data interchange (EDI). EDI, a software system for reliably exchanging information, traditionally required employing a private network and learning difficult software. Until recently it was the primary way businesses conducted electronic commerce, but the high cost of implementation has kept many small businesses from installing it.

2. Business-to-Consumer (B2C). Shopping is one of the most popular activities on the Internet, and the number of people who shop and buy products on the Internet is growing. For example, L.L. Bean, the world's largest catalogue retailer of outdoor specialty products is able to reach new customers who have never purchased from them before. It 'discovered' them on the Internet. FedEx has launched FedEx Ship, its electronic network that allows businesses to print mailing labels and arrange for shipment of orders. FedEx has a service to help companies set up Web sites with online catalogues on FedEx's Internet server. The system allows clients to process orders and arrange for shipment, with FedEx as the default shipper.

Thus it can be highlighted that if the characteristics of the customers are same then the distribution channel of two companies should be same.

Distribution Channel Design Strategies and Structures

Sometimes, firms in similar business have different kinds of distribution channels. This is so, because a company wants distribution channel to achieve maximum customer satisfaction and acquire a competitive edge. An efficient distribution channel can be planned on the basis of four steps given as follows:

1. Specifying the role of distribution channel. Channel strategy has to be proportional to a company's marketing objectives, its mission statement, and roles assigned to the rest of the marketing mix. A company must decide whether distribution will be used defensively or offensively. Under a defensive approach, a firm will strive for a distribution that is as good as a competitor but not necessarily better than the competitor. But in an offensive strategy a manufacturer will try to gain advantage over the competitor by having a more efficient channel.
2. Selecting the type of channel. Once role of distribution is agreed, the next step involves determining the most suitable type of channel for the companies. Companies need to decide if it wants to use middlemen or not. The choice is between a direct distribution channel or an indirect distribution channel.

(a) Listing the factors that could potentially influence the direct / indirect decision.

(b) Picking out the factors that will have the best impact on the channel design decision for example, market concentration, customer service level, asset specificity and availability of working capital.

(c) Deciding on how each factor is related to the efficiency of a distribution channel for example, market concentration refers to size as well as geographic dispersion of customers. More concentration means direct distribution channel, as it incurs low cost of serving the market. Low concentration means indirect distribution channel. Again customer service level includes three sub-factors like (i) delivery time (ii) lot size, and (iii) product availability. The more the customer service is required by the market, less desirable is the direct distribution channel. Similarly, the more certain the environment, the greater the asset specificity required. Thus, 'more' is the preference for direct distribution channel. The higher the availability of working capital, the more likely is the direct distribution channel.

3. Determining intensity of distribution. The next decision relates to intensity of distribution, or in other words, the number of middlemen used at the wholesale and retail levels in a particular territory. The target market's behaviour and the product capture have direct bearing on this decision. There are three main degrees of intensity possible.

LEVEL OF INTENSITIES

Intensive	Selective	Exclusive
Distribution through Every reasonable Outlet in the market	Distribution through multiple, but not all outlets in the market	Distribution through a single wholesaling middlemen or retailer in the market

(a) Intensive distribution : Under this distribution, a producer sells his product through every available outlet in the market. If the nature of the product is a convenience product, then intensive distribution is preferable. For example, Colgate sells its dental hygiene products in supermarkets, drug stores and other retail outlets.

(b) **Selective distribution**: Producer sells his products through multiple retailer and wholesalers. The intensity of sale from this distribution lies midway between exclusive and intensive distribution.

(c) **Exclusive distribution**: Supplier agrees to sell his products only to a single wholesaling middleman and / or retailer in a given market. At the wholesale level such an arrangement is termed as distributorship and at retail level, it is called dealership.

3.**Choosing specific channel members**. It a manufacturer has decided to sell a music product through IDC, then he can choose between two channel members – departmental or speciality stores. The manufacturer has to choose between departmental stores like Ebony, Wal-Mart, Kay-Mart and so on, or speciality stores like Planet M or Music World. The selection of specifics depends upon the market, the product, the company and the middlemen. This process helps in designing an efficient distribution channel, increasing co-ordination between various components of marketing mix.

FACTORS EFFECTING CHOICE OF DISTRIBUTION CHANNELS

Choice of distribution channels is effected by consumer's buying patterns. The nature of the market therefore should be a key factor in management's choice of channels. Other considerations are the product the middlemen and the company itself.

Market Considerations

A logical starting point is to consider the target market – its – needs, structure and buying behaviour in the following orders.

1. **Type of market**. : The characteristics of ultimate consumer is different from business users, and thus different distribution channels are used to reach different type of markets. For example, Heweltt Packard may approach institutional users directly while consumer, through IDC.

2. **Number of potential customers**. A manufacturer with 1m potential may use its own sales force to sell directly to ultimate consumers. Boeing uses this approach, (Kotler) while Reebol relies on numerous middlemen to market its footwear (Stanton)

3. **Geographic concentration of the market**. When most of, firm's prospective customers are concentrated in a few geographic areas, direct sales is practical, and vice versa.

4. **Order size**. When either the size or total volume of a business is large, direct distribution is economical. Thus a food-product manufacturer would sell directly to large grocery stores.

Product Considerations

There are numerous product related factors effecting the choice of a distribution channel. Following listed are the most important ones:

1. **Unit value**. The price attached to each unit of product affects the amount of funds available for distribution. For instance, a company can employ its own staff to sell a product that costs Rs.10,00,000, but it would be illogical to sell directly a ball pen worth just Rs.5 to the consumer, on unit basis. However, if the order size is large, then even in this case, the DC is feasible.

2. **Perishability**. Some products have a very short shelf life and so have to be sold through short distribution channels.

3. **Technical nature of the product.** A business product that is highly technical is often distributed directly. In such cases, the manufacturer's sale force must provide considerable pre- and post-sale services for example, Sony has become prominent in the market for low priced CD players. This is due to its development of pre-packaged players that could be sold through mass retailers. This reduce the burden of after sale services on the sales force, as sales clerks with low degree of technical know-how could also handle the customers.

Middlemen Considerations

Why should we consider the need to have a middlemen? The reasons may be the following:

1. **Services provided by middlemen**. Each producer should select middlemen offering those marketing services which the producer either is unable to provide or cannot economically perform. For instance, a firm wanting to enter Indian market, commonly utilizes industrial distributors because they furnish needed capabilities such as market coverage, sales contacts and storage of inventories.

2. **Availability of desired middlemen**. The middlemen preferred by a producer may not be available. They may be involved in competing products, and as a result, not want to add another line.

3. **Attitude of middlemen towards producer's policies**. When

middlemen are unwilling to join a channel because they consider a manufacturers policies to be unacceptable, the manufacturer has a fewer channel options.

Company Considerations

Before choosing a distribution channel of a product, a company should also consider its own situation, i.e. conduct a SWOT analysis of its resources.

1. **Desire or channel control**. Some producers establish direct channels because they want to control their products distribution, even though a direct channel may be more costly than an indirect channel. By controlling the channel, producers can achieve more aggressive promotion and full use of the marketing mix. IBM experimented with mail-order sales of its personal computers so as to improve customer satisfaction.

2. **Services provided by seller**. Some producers make decisions about their channels based on the distribution function desired by middlemen. For example, a producer with high profiled advertising campaign will go for IDC, as retailers, satisfied with the services of the manufacturers, would be ready to stock product. Examples of this kind are Pepsi and Coke.

3. **Ability of management**. Marketing experience and managerial capabilities of a producer influence decisions about which channel to use. Many companies lacking marketing know-how, turn the distribution job over to the middlemen.

4. **Financial resources**. A business with adequate finances can establish its own sales force, grant credit to its customers and / or warehouse its own products, while a financially weak firm uses middlemen for the same purpose.

EXERCISE

1. What are channels of distribution?
2. What factor effect choice of channel
3. Compare the traditional distribution channels with Internet channels.
4. What are competitive advantages of exclusive distribution?
5. What advice regarding distribution channel would you give to an American company that makes agricultural equipment and desires to distribute the product line in the Indian rural market?
6. Design a marketing channel for the following goods:
   (a) Processed food (b) A refrigerator (c) Fork lift truck.

UNIT – III

LESSON 3.3

Channel Management

This chapter will address the following

1) Functions of intermediaries

2) Types of intermediaries

3) Variables to be considered for selecting channel members

FUNCTIONS OF INTERMEDIARIES

The overhead costs can be reduced by reducing the number of transactions (exchanges). Marketing intermediaries increase efficient availability of products in target markets in a lesser number of transactions. Moreover, intermediaries offer the manufacturer, benefits of larger and more efficient customer service through contacts, experience, specialization, and scale of operation. Intermediaries smoothen the flow of products from sellers to buyers, by performing key functions such as informing, promoting and physical possession (including negotiation, title, payment risk taking and financing). A producer will use an intermediary when he believe that the intermediary can perform the function(s) more economically and efficiently than it can, as sharing of selling function with the intermediaries also means loss of control. This loss of control can be in terms of how and to whom the products can be sold in the market.

The main functions of intermediaries are as follows:

1. **Information** is concerned with gathering and distributing marketing research and intelligence about the environment for planning purposes. This information is best provided by

the intermediaries as they are the people who deal with the customers regularly and understand the customers' attitude and motivations better than the manufacturer. And it is this pulse of the customer that needs to be felt by a company, for its strategy formulation.

2. **Promotion** involves developing and spreading persuasive communications about an offer. The intermediaries being close to the customer know best as to the strategy which will be best suited for motivating the customers. It is these people who can tell best if the company should adopt push promotional strategies or pull strategies at a given time in the market. They can also provide valuable information concerning the possible contents of the promotion mix.

3. **Physical possession** relates to transporting and storing of products. The intermediaries also play an important role in creating possession and place utilities. They help in value addition of a product by helping and motivating customers understand the utility of the product. This activity also involves negotiations on price and other terms. The title is the actual transfer of ownership from one organization or person to another. The payment involves buyer paying their bills. The risk-taking function assumes the risk of carrying the product and receiving payment.

4. **Financing** involves acquiring and using funds to cover costs. Without an intermediary, each buyer has to negotiate and exchange with each seller. Intermediaries reduce the

number of contacts necessary to complete a transaction. For example, if eight customers want to buy a product from three different manufacturers, they will have to make a total of 24 transactions. However, with an intermediary, the total number of transactions is reduced to eleven. Thus, the use of intermediaries is extremely efficient for the consumer and the manufacturer. In other words, intermediaries help decrease the inventory conversion period.

5. **Retail** is concerned with retail selling of products. Most manufacturers produce a single line of products (narrow astroment) and sell them in large quantities. Intermediaries reduce this quantity discrepancy by matching supply with demand. They buy in large quantities and sell in smaller quantities. They help to smoothen the distribution path for goods by creating utility, performing marketing functions, and cutting costs. Producers do not have to deal directly with a larger number of end-users. Instead, marketing intermediaries handle the tasks involves.

6. **Consumers** need an assortment of products, and intermediaries resolve this assortment discrepancy by gathering products from several manufactures to offer a broad assortment to consumers. This we call assortment function. By representing numerous producers, marketing intermediaries cut the costs of buying and selling. Because they can consolidate orders, they may also be able to negotiate better prices than individual consumers could.

TYPES OF INTERMEDIARIES

Merchant Wholesaler

A wholesaler or distributor is an independent commercial establishment that purchases products from various manufacturers for stock and offers complete assortments of special merchandise for resale to the retail store. A merchant wholesaler provides the widest variety of marketing functions an services. They are independently owned, and take title to merchandise. Merchant wholesalers can be further divided into full service wholesalers and limited service wholesalers.

Full service wholesalers provide a full set of services (buy, sell, transport, store, standardize, finance, bear risk, gather market information, and research). This type of wholesalers can be further categorized as follows :

1. **Wholesale merchants**. This type of wholesalers provide full range of services and products to the retailers. These are further divided into categories based on the product lines carried by them. If a wholesaler carries only a selective or targeted range of products within several merchandise lines he is called as the general merchandise wholesaler. If a wholesaler carries extensive assortment of products in one or multiple product line then he is called as the general line wholesaler, for example wholesalers who sell pharmaceuticals, over-the counter drugs and toiletries to small, independently owned drug stores. If a wholesaler carries all products of a single line, then he is called as a speciality wholesaler. Food first.co.uk is one such online wholesaler. In addition, meat and fish (frozen foods), daiq products, hardware, groceries trade and fashion appear specialty wholesalers have also been successful.

2. **Industrial distributors**. This category refers to those wholesalers who sell their products exclusively to other manufacturers. Industrial distributors may carry multiple product line general product line or specialty line. The products stock include: maintenance, repair and operating supplies (MRI items), original equipment manufacturers (OEMs) an machineries used for value addition for example, Harrington Industrial Plastics Inc., Terracon Corporation, CRECO Inc.

Limited-service wholesalers provide limited services to the suppliers and customers. There are several kinds of wholesalers in the category.

1. **Cash and carry wholesalers**. This is a kind of channel partner who stocks a limited line of fast moving products. I pays and picks up the products and expects the same from t] customer as well. This wholesaler provides merchandise at reduced cost to the retailer by reducing service offers al eliminating credit risk. For example, a small grocer who bu and pays for the vegetables to the producers every day.

2. **Truck wholesalers**. A truck jobber or wagon distribu1 employs a wholesaler technique that combines the functions sales and delivery only. They carry a limited line of product (such as milk, bread, eggs and soft drinks) that they sell cash to supermarkets, restaurants, hotels and the like. Product most often sold include nationally advertised, fast move brands in small quantities. Frequent calls and contacts with retailer reduce retailer inventory and investment requirement This produces fast inventory turnover and prompt repleniment of products sold.

3. **Drop-shipper**. This refers to the wholesaler who accumul. orders from retailers and purchases sizeable quantities from manufacturer at a discount. They deal in commodities which are handled in bulk like building material, coal and lime. Although drop-shippers take title to products and sell the they carry no stock and make no deliveries. When they receive a customer order, they simply locate a supplier, who deliver the products directly to the consumer.

4. **Rack jobber**. This is a wholesale establishment that furnish display equipment and inventory to the retailer and regular replenishes stock as it exhausts. Merchandise is generally **I** consignment basis and the retailer pays only for products. The firm provides tested and controlled display techniques. It eliminates retailers' inventories and investment requirements. This results in fast merchandise turnover and assured stock replenishment. Example of products supplied by rack jobbers are toys, paperbacks, greeting cards, hardware items, health and beauty care.

5. **Producer co-operatives**. This type of distribution organization is formed by agricultural producers for selling their produce in the local market. An important aim of the co-operative is to promote a brand name. For example, Amul.

6. **Mail order wholesalers**. These are wholesalers who depend upon sales made through the catalogue.

7. **Jobber**. A commercial establishment that buys from various sources for resale to retail stores is referred to as a jobber. It provides broken-package quantities and makes up specified

assortments on a job-lot basis. Jobbers offer flexibility of servicing small retailers and odd-lot requirements.

8. **Franchised distributor**. A district wholesaler representing one or more manufacturers, having exclusive right to the distribution of their merchandise in the assigned territory, is called a franchised distributor.

9. **Voluntary group wholesaler**. This is a wholesale establishment serving as a voluntary association of participating retailers or outlets, which buy from manufacturers to obtain quantity discounts. The establishment offers a complete assortment of merchandise as required by members, and provides merchandising assistance to members. This enables participating members to reduce costs and compete more effectively with corporate chains.

Brokers and Agents

Brokers and agents do not take title to the products, and offer their customers a very limited number of services. Brokers are middlemen who bring the buyer and seller together and assist in price, product and delivery negotiations. Agents are wholesalers contracted to represent the producer or the buyer. These are of several types.

Manufacturers agents. These are independent agents who usually represent two or more manufacturers who produce complementary products. They usually represent the manufacturer with whom they have entered into a contract. This contract usually contains details concerning pricing policies, territories, order handling procedures, delivery service and warranties and commission rates. These are firms composed of highly skilled sales people who are contracted by the small firms who cannot afford to have an extensive sales force of their own.

Selling agents. These are intermediaries who are contracted by the manufacturer to sell the entire production output. This type of agents are taken on by companies incapable of employing individual fulltime sales force.

Purchasing agents. Agents adopted by the customers are purchasing agents. These agents are able to get best goods and prices for the customer and also provide consultative services.

Commission agents. These are intermediaries who purchase goods from the manufacturer and then sell it in the market for the best possible price. After deducting their fee and miscellan.eO\lS eXllen.ses, the balance is llassed on to the manufacturer.

Manufacturer and Retailer (Branches and Offices)

Manufacturers' branches and offices. These are intermediaries who perform various functions of sales and distribution without the assistance of an independent wholesaler. Various categories under this type are as follows:

(a) **Manufacturers' branches**. These are owned by buyers or sellers and not by independent wholesalers. These usually carry little or no inventory, and primarily take orders for merchandise. Miscellaneous wholesalers include agricultural assemblers, petroleum bulk plants and terminals, and auction companies.

(b) **Manufacturers' outlets**. These refer to stores located in the high-density markets owned or leased by the manufacturers. These are used by manufacturers of branded consumer products like designer clothing and Jewellery makers.

Retail distribution. Retailers can be classified in terms of store retailers, non-store retailing, and retail organizations.

(a) **Store retailers**. These include specialty stores, department stores, supermarkets, convenience stores, superstores, combination stores, hypermarkets, discount stores, warehouse stores, and catalogue showrooms .

- **A retail store** is a merchant or business establishment that sells mainly to the ultimate consumer. The retailer specializes in a particular line or category of product. It offers a logical outlet with similar or associated products. to satisfy a particular consumer's need.
- A **franchised dealer** or retail store is an independent establishment that has a contractual arrangement with a manufacturer to sell its entire product line, usually with exclusive rights to sell within an assigned territory. '
- A **retailer co-operative** is a group of retailers, each of whom owns and operates his own store. They are organized to purchase products through a jointly owned or sponsored warehouse operation for ultimate sale to individual buyers through their respective retail outlets.
- A **department store** is a retail outlet that displays and offers a great variety of products for sale, where merchandise is separated by appropriate departments or categories of use or need. It presents a wide variety and choice of products to attract customers and uses well-developed merchandising techniques. For example, Wal-Mart, Kay-Mart and so on.
- In general, **supermarkets** are large, low-cost, low-margin, high-volume, self-service stores that carry a wide variety of food, laundry, and household products. Examples are Safeway and Cub Foods.

- A **convenience store** is a small store located near a residential area, that is open long hours, seven days a week and carries a limited line of high-turnover convenience goods. An example is 7-Eleven.
- A **superstore** is a store almost twice the size of a regular supermarket that carries a large assortment of routinely purchased food and non-food items and offers services such as dry cleaning, post offices, photo finishing, cheque cashing, bill paying, lunch counters and car care. Wal-Mart and Kay-Mart have opened some "super centres" that fall under this category.
- A **warehouse club** is an off-price retailer that sells a limited selection of brand-name grocery items, appliances, clothing, and other goods at deep discounts to members who pay annual membership fees. The largest national chain warehouse club is Sam's Club. Stores look more like warehouses and offer few frills or services and consumers are expected to buy in bulk. In exchange, consumers get low prices. Some other warehouse clubs are Price Club, Costco, P1's wholesale club.
- **Category killers/sub percenters** are superstores that focus on a narrow product line. A category killer carries a very deep assortment of a particular line of product, and is staffed with knowledgeable employee~. It usually comes into markets and "kills" the competition in that line of products by virtue of their size and assortment. Examples of category killers are Toys "R" Us, Best Buy, Office Depot, Staples and Horne Depot.

(b**) Non-store retailing**. This type of retailing is growing more rapidly than store retailing. This includes direct selling (door-to-door, party selling), direct marketing, automatic vending, and buying services. Much of the retailing is in the hands of large retail organizations such as corporate chains, voluntary chain and retailer cooperatives, consumer cooperatives, franchise organizations, and merchandising conglomerates.

- A direct selling organization is a marketing method wherein the manufacturer or producer sells directly to retailer, user, or ultimate consumer without intervening intermediaries. This offers flexibility with maximum control of sales effort and marketing information feedback.
- A direct sales or catalogue or mail order house is a retail or wholesale concern employing a· technique in marketing, wherein sales are generated entirely through advertising from brochures or catalogues without the use of salespeople or retail outlets. The placement of orders and shipments are handled through the mail or delivery service. This provides wide coverage at low per-unit sales cost and allows centralization of warehousing and service facilities. Catalogue marketing involves selling through catalogues mailed to a select list of customers or made available in stores.
- Telemarketing involves using the telephone to sell directly to consumers.
- Television marketing utilizes direct-response advertising features that provide a toll-free number, 24-hour a day, for consumers to call immediately to purchase the product. Advertisements can be of 60-second spots or half-hour infomercials, often featuring celebrity spokespersons. An example is, Home Shopping Network.
- Electronic marketing utilizes computer and the Internet.

- Automatic merchandising involves the use of vending machines. This is a marketing method, that employs slot coin (or dollar or credit card) machines to deliver products without the aid of sales personnel. This provides wide market coverage at accessible locations on at around-the clock for convenience merchandise and impulse items. Mostly this channel is used with branded merchandise.

Export and Import Distributors

The fourth category of distributors specialize in the international distribution. The various types of international distributors are:

International trading company. These perform functions like purchasing and selling of goods, arrangement of logistics services, financing currency conversions, consultation services, risk bearing functions and completion of documents.

Export merchants. These intermediaries act as international wholesalers. They buy goods in the local markets, pack them and ship them to the foreign distributor or market.

Export commission house. The firm or the company thus contracted by an international firm negotiates, buys and ships the product to the foreign market.

As discussed so far, marketing channels are organizations comprising of interdependent or independent agencies working for a common goal, i.e. making goods and services available to the end-user. Majority of the agencies in the channel are independent. This leads to channel partners' objectives and attitudes clashing at some point of time. This is because, each member try to look after his own interest than that of the manufacturer.

They thus adopt a micro view, which in turn effects the working of the super organization. The reason for this could be that the efficiency of the marketing channel depends upon the ability of the members to work together. This necessitates some motivators and control efforts. These need to practised by the manufacturer on the channel members in order to achieve

(a) improved channel communication,

(b) co-operation among various channel member, and

(c) to induce the channel members to give their best to the product.

To bring this to reality, in addition to good motivational policy, a well-planned system should be followed to choose the channel members.

Variables to be Considered for Selecting Channel Members

Once an optimal distribution channel has been designed, the channel members have a clear and concise idea of the activities to be performed to achieve a high customer satisfaction level. For this purpose, the channel members are required to commit, not only psychologically but also monetarily, to the mission and objective statement of the planned distribution system. Monetary resources involve procurement of resources like warehouses, toll-free telephone lines, well-trained sales force, electronic data storing and managing equipment. Thus, to make a distribution channel work, the channel partners should be carefully selected. The factors which are considered before selecting a channel member are as follows:

Financial strength of the prospective partner: "financially sound': This deals with finding the financial resources at the disposal of the partner being considered. This is done, so as to get an idea of the resources the potential partner can spare for the manufacturer. The idea of the financial position can be generated from the intermediaries' financial statement and analysis thereof.

Sales strength: "enough good people". Sales strength is a term which is used to analyze the skills of the sales force employed by the intermediary, again, Le. the number as well as their competencies. Competency, is measured in terms of communication skills and technical know-how possessed by the employees of the channel partner.

Product lines. In the modem economy it is impossible to find an intermediary solely dedicated to one product line. This variable considers the existing product line carried by the prospective intermediary. An in depth analysis is made into the type, strategies, resources committed by the intermediary to the product line, in order to determine whether it is a competitive product, complementary or a compatible· product. For example, Pepsi and Coke never have same intermediary.

Reputation of the intermediary: "character counts". In today's economy, customer behaviour is motivated by the need for maintaining a status symbol. Therefore, the reputation of the intermediary in the market could make a lot of difference in terms of input required in order to sell the product in the market. Moreover, the reputation of the intermediary amongst other suppliers is also evaluated so as to know about the inter-mediaries like his habit to return orders, late payments and asking for discounts.

Market coverage: "the more the better". We are looking for an intermediary not only to take advantage of certain specialized functions performed by them like packaging of products, sorting, advertising and storing, but also to sell the product to a wider market. The primary aim of any company to share market control with the intermediary is to bridge the gap between itself and a larger number of consumer. Thus an intermediary chosen, should also have a wide coverage area, quantified in terms of number of outlets per market area (geographic coverage), industry coverage and intensity coverage (Le. the number of times a customer is called upon).

Sales performance: "good track record". Sales strength indicates the qualitative strength of the sales force. While this is so the competencies of the sales force is enhanced by the intermediary. This is done by analyzing the performance of the existing related product lines in the portfolio of the channel partner. Moreover, efficiency is also judged by measuring the capacity of the intermediary to reach target individuals, provide after sale services and organize advertising and sales promotion programmes.

Management strength. Manufacturers look for an intermediary to increase their strength in the market. For this purpose an analysis into the management style of the intermediary is done. It is not necessary that the two styles have to be the same or compatible. But they have to be efficient. Efficiency is measured in terms of factors such as employee relations, strategic direction, organization decision making structure and employee training programmes.

Equipment and facilities. This variable analyzes the kind of transportation facilities, delivery methods, safety precautions during storage and transportation and record keeping facilities at the disposal of the prospective intermediary to be provided to the manufacturer.

Ordering and payment procedures. The efficiency with which an intermediary places orders with the manufacturer and settles his bills also influence the selection process. This is so because there is no use of a fast inventory conversion period to a manufacturer if the average collection period is long.

Willingness. This variable considers the willingness on the part of the intermediary to commit resources, co-operate in joint programme and share data with the manufacturer concerning customers, sales force and inventory.

A company cannot achieve the best of all the variables in an intermediary. A manufacturer has to understand the needs of the product and market, and then land upon a set of priorities. He should then try to trade off between certain selected variables. This selection process would help get the best of the line to constitute a distribution channel. But the best are of no use, if they do not co-operate with other channel members in achieving the company's objectives.

EXERCISES

1. Discuss the types of intermedians in channel management.
2. Explain the function of intermedians in channel management
3. Describe the variables to be considered for selecting a channel member.

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Unit – IV

MANAGING THE CHANNEL MEMBERS

INTRODUCTION:-

Most producers do not sell their goods directly to the final users. Between producers and the final users stands a marketing channel. The channels of distribution furnish bridge between the producer and the consumer.

Marketing channel or channel of distribution or trade channel is a group of interrelated individuals or organizations that direct the flow of products to consumer.

Stern and El-Ansary defines marketing channels "sets of interdependent organizations involved in the process of making a product or service available for use or consumption".

Marketing intermediary is an individual or organisation that facilitates exchanges between producers, others intermediaries, and the final consumer of products. Middlemen are channel intermediaries. A middlemen is an independent business concern that operates as a link between producers and ultimate consumers or industrial users. Middlemen refer to wholesalers, retailers and marketing specialists. The marketing intermediaries can be divided into major classifications.

1) Merchants – Assumes ownership of product and resells them for a profit.
2) Agent or Brokers – An intermediary who searches for customers and negotiates on a producer's behalf but does not take title to the goods.
3) Retailers – A business enterprise that sells goods or services directly to the final consumer for his or her personal, nonbusiness use.
4) Wholesaler – A business enterprise that sells goods or services to those who buy for resale or business use
5) Facilitators – An intermediary who assists in the distribution process but neither takes title to goods nor negotiates purchase or sales.

FUNCTIONS OF MARKETING CHANNELS:

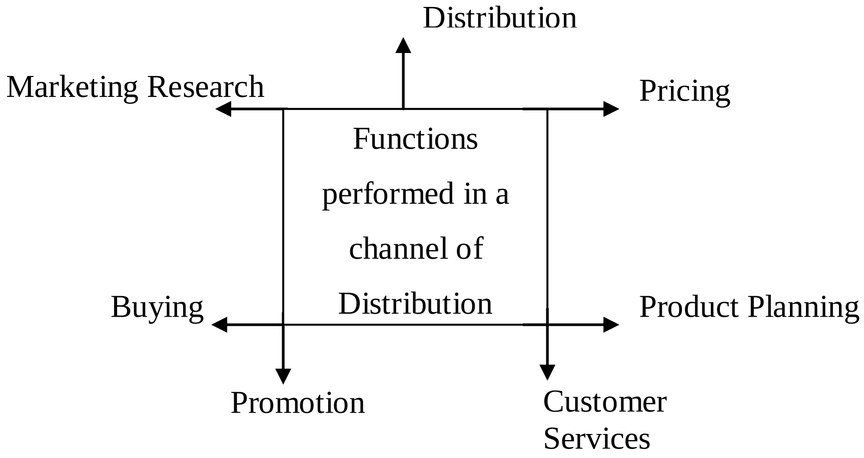


Fig 4.1

Marketing Research:

Middlemen provide information regarding the needs and characteristics of customers, Competitors and other actors and forces in the marketing environment.

Buying:

In buying merchandise, middlemen sometimes pay when items are received; at other time, they accept item on consignment and do not pay for them until after a sale has been made, thus purchase terms may range from cash or credit. In buying function, the middlemen put order with the manufacture with intension to buy.

Promotion:

The middlemen do promotion to attract customers to the offer. A large portion of the promotional activities behind the final sale of a product to the consumer is performed by middlemen.

The actual point of purchase display of merchandise in the store is almost completely in the hands of the retailers. The retailer also does a great deal of the advertising, selling and promoting of the wares he sells. Wholesalers help to coordinate local promotion among retailers and sometimes motivate and train retailer's sales staff. Manufactures undertake a multitude of activities to assist their middlemen's promotional effort.

Consumer Services:

Consumer services include delivery, credit, in-office and in-home purchase, training programs, warranties and guarantees and return privileges. These services can be provided by one channel member or a combination of channel members.

Product Planning:

Middlemen can contribute to product planning in several ways. They often provide advice on new and existing products. Test marketing requires their cooperation. The middlemen can be quite helpful in properly positioning products against competitors and suggesting which products to delete.

Pricing:

Distributive institutions strongly influence the retail price of a manufacturer's product. The retailers are in closer touch with what the market will pay for an article than the producer is. Frequently, manufacturers rely heavily on middlemen's recommendations regarding retail prices and various margins required by the middlemen who will be handling the product. Channel institutions thus play an active role in the setting of the factory price.

Finally in many instances the retail dealers decide the actual price charged the consumer. They may be free to establish whatever price they wish, sometimes they will even sell merchandise below cost for promotional purposes.

Distribution:

Distribution incorporates three major factors. Transporting, inventory management and customer contact. Merchandise must somehow be shipped from a manufacturer to its consumers. Middlemen often provide this service.

The production capabilities and customer demand frequently differ, Inventory levels need to be properly managed (items may require storage in a warehouse before being sold). Last, the selling of goods and services to consumers may require a store or seller location, long hours of operation, and store fixtures (such as cash registers and dressing rooms).

Middlemen can assist manufacturers in distribution by engaging in the sorting process, which consists of accumulation, allocation, sorting and assorting functions. Accumulation is the middlemen task of collecting small shipments from several manufacturers, so they can be transported economically. Allocation is the middlemen task of distributing items to various consumer markets. It apportions goods. Sorting is the middlemen task of separating merchandise into grades, colours and sizes. Assorting is the middlemen task of acquiring a broad range of merchandise. So the consumer is able to choose from different brands, price, ranges and models.

ARE MARKETING INTERMEDIARIES NEEDED

In today's economy, individuals are able to satisfy nearly all of their needs and wants by picking up the telephone or visiting a nearby store. As consumers, we assume that goods will be readily available when we need them, whether it be clothing, appliances, automobiles, entertainment, or simply a cold soft drink from a vending machine. When one of these products is occasionally sold out, we become somewhat discontented. Goods can be made available to consumers on a timely basis at convenient locations because of marketing channels. Despite the importance of marketing channels, consumers seems to understand them less than the other marketing mix variables. In fact, channel members and the functions they perform are often taken for granted, resulting in some consumers questioning whether marketing intermediaries are needed.

Point: Marketing intermediaries play a vital part in an efficient exchange. By bringing buyers and sellers together, marketing channels help make products available when and where consumers want to buy them. Intermediaries also improve the efficiency of an exchange by reducing the number of required transactions between producers and consumers. Finally, marketing intermediaries are helpful in matching supply with demand.

Reducing the number of intermediaries does not eliminate the need for their functions. Imagine if you had to deal with the producer for many of your purchases. How would you go about buying books, cars, clothing, or daily essentials such as food? Without channel intermediaries, the consumer or someone else would have to perform the channel functions either way, the consumer still pays.

Counterpoint Marketing intermediaries sometimes are an extra expense that can be eliminated. In some channels, products are passed through four or even five channel members before they reach the final consumer. Rather than being more efficient, the distribution effort is less efficient and more costly. Increased costs are passed along to consumers in the form of higher prices.

MANAGING CHANNEL RELATIONSHIPS

Each member of a marketing channel has a position with rights, obligations, and rewards; and each is subject to penalties for nonconformity. Moreover, each channel member has certain expectations of every other channel member. Retailers except wholesalers to keep sufficient inventories on hand and to deliver goods on time. Wholesalers except retailers to abide by the terms of payment contracts and to keep them informed about inventory levels. If the marketing channel is to operate effectively, channel members must cooperate with each other and keep conflict in check.

Channel cooperation a mutually helpful relationship in which channel members work together for the benefit of all members and the realization of overall channel objectives. Channel cooperation occurs when channel member work together for their mutual benefit. Cooperation is necessary if each channel member is to gain something from other members. The realization of overall channel objectives and individual member objectives depends on cooperation. Unless a channel member can be replaced, the misconduct of one member can destroy the entire channel. Thus, it is vital that policies be developed to ensure the welfare and survival of all indispensable channel members.

Types of Conflict and Competition

Channel conflict is a friction between marketing channel members, often resulting from role deviance or malfunction by one member. Channel conflict Results from role deviance or malfunction, where one member does not conform to its expected role. For example, wholesalers except manufacturers to maintain product quality and production schedules, and except retailers to market products effectively. In turn, retailers and producers except wholesalers to provide coordination, functional services, and communication. If wholesalers, retailers, or producers fail to conform to other channel member's expectations, channel conflict results. By anticipating problems, marketing managers can make changes to resolve channel conflicts. For instance, the channel leader could explicitly spell out the responsibilities and performance levels expected of each channel member.

Suppose a manufacturer sets up a vertical channel consisting of wholesalers and retailers. The manufactures hopes for channel cooperation that will produce greater total channel profits than each channel member would generate if it acted only on self – interest. By cooperating, the channel members can more effectively sense, serve, and satisfy the target market. Yet vertical, horizontal, and multichannel conflict can occur.

Vertical channel conflict exists when there is conflict between different levels with in the same channel. For example, General Motors came into conflict with its dealers years ago in trying to enforce policies on service, pricing, and advertising. And Coca-Cola came into conflict with its bottlers who agreed to also bottle Dr. Pepper.

Horizontal channel conflict exists when there is conflict between members at the same level with in the channel. Some Ford car dealers in Chicago complained about other Chicago Ford dealers advertising and pricing too aggressively. Some Pizza Inn franchisees complained about other Pizza Inn franchisees cheating on the ingredients, maintaining poor service, and hurting the overall Pizza Inn image.

Multichannel conflict exists when the manufacturer has established two or more channels that compete with each other in selling to the same market. When Good year began offering its popular tire brands for sale through mass – market retailer like Sears, Wal-Mart, and Discount Tire, it angered its independent dealers. Multichannel conflict is likely to be especially intense when the members of one channel either get a lower price (based on larger volume purchases) or are willing to work with a lower margin.

Causes of Channel Conflict

It is important to identify the different causes of channel conflict. Some are easy to resolve, others more difficult.

A major cause is goal incompatibility. For example, the manufacturer may want to achieve rapid market growth through a low – price policy. The dealers, in contrast, may prefer to work with high margins and pursue short – run profitability. This is a difficult conflict to resolve.

Sometimes the conflict arises from unclear roles and rights. IBM sells personal computers to large accounts through its own sales force, and its licensed dealers are also trying to sell to large accounts. Territory boundaries, credit for sales, and so forth and grounds for conflict.

The conflict can also stem from differences in perception. The manufacturer may be optimistic about the short–term economic outlook and want dealers to carry higher inventory. But the dealers may be pessimistic about the short–term out look.

The conflict might arises because of the intermediaries' great dependence on the manufacturer. The fortunes of exclusive dealers, such as auto dealers, are intimately affected by the manufacturer's product design and pricing decisions. This situation creates a high potential for conflict.

Managing Channel conflict

Some channel conflict can be constructive. It can lead to more dynamic adaptation to a changing environment. But too much conflict is dysfunctional. The challenge is not one of the eliminating conflict but of managing it better. There are several mechanisms for effective conflict management.

Perhaps the most important mechanism is the adoption of superordinate goals. The channel members somehow come to an agreement on the fundamental goal they are jointly seeking, whether it is survival, market share, high quality, or customer satisfactions.

A useful conflict management devise is the exchange of persons between two or more channel levels. For example, General Motors executive might agree to work in some dealerships, and some dealership owners might work at General Motors in GM's dealer policy department. Presumably, the participations will grow to appreciate the other's point of view and carry more understanding when returning to their original positions.

Cooptation is an effort by one organization to win the support of the leaders of another organization by including them in advisory councils, boards of directors, and the like. As long as the initiating organization treats the leaders of the other organization seriously and listens to their opinions, cooptation can reduce conflict. But the initiating organization also pays a price in that it may have to compromise its policies and plans in order to win the support of the other side.

Much can be accomplished by encouraging joint membership in and between trade associations. For example, there is good cooperation between the Grocery manufacturers of America and the Food Marketing Institute, which represents most of the food chains; this cooperation led to the development of the universal product code(UPC). Presumably, the association can consider issues between the food manufacturers and retailers and put them through an orderly process of resolution.

When conflict is chronic or acute, the parties may have to resort to diplomacy, mediation, or arbitration. Diplomacy takes place when each side sends a person or group to meet with a counterpart from the other side to resolve the conflict. It makes sense to assign diplomats to work more or less continuously with each other to avoid the flaring up of conflicts. Mediation means resorting to a neutral third party who brings skills in conciliating the two parties' interests. Arbitration occurs when the two parties agree to present their arguments to a third party (one or more arbitrators) and accept the arbitration decision.

When several individuals or organizations engage in a relationship, conflict is inevitable. This is certainly true for marketing channels. Nevertheless, many channel conflicts can be resolved through effective channel leadership. The channel leader is able to reduce conflicts among channel members because it possesses channel power. **Channel power** is the ability of one channel member to influence another member's marketing decisions and goal achievement. Channel power enables a channel leader to influence overall channel performance.

Channel power is derived from the control of resources and services critical to other channel members. The channel member that controls resources on which other members depend is usually the channel leader. For example, fertilizer dealers depend heavily on chemical manufactures for many resources and services, including on-time product delivery, price information, employee training, legal assistance, and credit. As a result, the chemical manufacturer can influence dealer's decisions regarding budgets, size of product purchases, pricing, and advertising.

LEGAL AND ETHICAL ISSUES IN CHANNEL RELATIONS

Companies are legally free to develop whatever channel arrangements suit them. Most channel law deals with the mutual rights and duties of the channel members once they have formed a relationship. Here we briefly consider the legality of certain channel practices, including exclusive dealing, exclusive territories, tying agreements, and dealers' rights.

Exclusive Dealing

Many producers and wholesalers like to develop exclusive channels for their products. The seller allows only certain outlets to carry its products are called exclusive distribution. When the seller requires that these dealers not handle competitors' products, its strategy is called exclusive dealing.

Exclusive Territories

Exclusive dealing often includes exclusive territorial agreements. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice is normal under franchise system as a way to increase dealer enthusiasm and commitment. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue.

Tying Agreements

Producers of a strong brand sometimes sell it to dealers only if the dealers will take some or all of the rest of the line. This practice is called full line forcing.

Dealers Rights

Producers in the United States are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause". But they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

DISTRIBUTION INTENSITY

Distribution intensity refers to the number of outlets in a trading area that sell a particular product. To illustrate, newspapers can be purchased from street vendors and at newspaper stands, convince stores, grocery stores, and other outlets, but a stereo or computer can be purchased from only a few selected dealers. The product and the target market served often determine the distribution intensity. Three major levels of distribution intensity are intensive, selective, and exclusive distribution. Figure 4.2 compares the distribution intensity of different products.

Intensive distribution means that a product is sold in all available outlets. Convenience products such as bread, milk, canned goods, chewing gum, soft drinks, and newspapers receive intensive distribution. Some products, such as soft drinks and cigarettes, are available virtually everywhere through vending machines. Most consumer packaged products, such as detergents, soaps, and personal-care products, also rely on intensive distribution.

Selective distribution uses only some available outlets in an area to distribute a product. Shopping products and durable goods such as automobiles, stereos, and large household appliances usually fall into this category. Because such products are more expensive than convenience goods, consumers spend more time visiting several retail outlets to compare prices, designs, styles, and other features.

Fig 4.2

INTENSIVE	**Chewing gum** **Soft drinks** **Soap** **Personal care products** **Dry cleaners**
SELECTIVE	**Appliances** **Furniture** **Men's suits** **Stereos** **Automobiles**
EXCLUSIVE	**Fine art** **Persian rugs** **Farm equipment** **Heavy machinery** **Rolls-Royce automobiles**

In **exclusive distribution**, a product is offered in only one or very few outlets within a relatively large geographic area. Organizations use exclusive distribution for products that are purchased rather infrequently, are consumed over a long period of time, or require service or information to fit them to buyers' needs.

PRODUCT ISSUES IN CHANNEL MANAGEMENT

Effective channel management requires that the channel manager be aware of how channel management interfaces with product, price, promotion, and logistics in the marketing channel. Three basic areas of product management are considered: (1) new product planning and development, (2) the product life cycle, and (3) strategic product management. With respect to new product planning and development, the basic product channel management issues are: (1) obtaining channel member input into new product planning, (2) promoting channel member acceptance of new products, (3) fitting new products into channel member assortments, (4) educating channel members about the new products, and (5) making sure new products are trouble free. The product life cycle implications for channel management must also be understood by the channel manager if it is to be used to enhance the life cycle of a product. Strategic management of a product line is necessary if a product line is to remain viable and profitable. Among the most important of these strategies are: (1) product differentiation strategy, (2) product positioning, (3) product line expansion and contraction strategies, (4) trading-up and trading-down strategies, (5) product brand strategies, and (6) product service strategy. The channel manager must understand the interrelationships of these product strategies with channel management strategies to support the implementation of these product strategies.

Channel management involves more than just motivation management; the channel manager must also be skilled at using the element of the marketing mix to facilitate the administration of the channel. The channel manager needs to use the firm's product, pricing, promotion, and logistics variables to their maximum effect in securing cooperation from channel members. These marketing mix variables may be viewed as *resources*: how these resources are used will affect the performance of the channel members. The channel manager needs to understand how the other marketing mix variables interface with the channel variable, and what the implications of these interfaces are for channel management. He or she would be in a better position to coordinate all four strategic components of the marketing mix to create the synergy needed to best meet the needs of customers. Our purpose in this section is not to present a comprehensive inventory of possible product-channel management interfaces. Rather it is to develop a *sense of awareness* on the part of the channel manager about the impact of product decisions on channel management decisions. The discussions and examples presented are organized around three major areas of product management: 1. New product planning and development 2. The product life cycle 3. Strategic product management

New Product Planning and Channel Management

The development of new products is a challenge faced by virtually all producers and manufacturers. New technologies, changing customer preferences, and competitive forces all contribute to the need to introduce new products. Achieving success for new product is dependent on may factors. One of these factors is the degree of support a new product receives from independent channel members. It is therefore crucial for the channel manager to analyze the possible channel implications in the planning and development of new products. Five issues are frequently important for a wide range of channels:

1) Encouraging Channel Member Input into New Product Planning

One way of promoting increased enthusiasm and acceptance for new products by channel members is by obtaining some input from them into new product planning. This input may range from soliciting ideas during the idea-generating stage, all the way to getting feedback from selected channel members during the test marketing or commercialization stage. In fact, input on the size of the product or on packaging changes may be all that is needed to enhance channel member cooperation. Seeking input from channel members may require that the manufacturer keep channel members informed on new product plans, but many manufacturers are very sensitive about new product plans for competitive reasons. The bottom line is that channel members are much more likely to enthusiastically support new products that they have played a part in developing.

2) Fostering Channel Member Acceptance of New Products

For new products to be successful, it must be accepted by the final users-whether industrial customers or final consumers. But success is also equally dependent upon acceptance of the new product by the channel members through whom it passes. Whereas final users are most concerned about how the product will perform when *used,* channel members are much more interested in how the product will *sell,* whether it will be easy to *stock* and *display,* and most important, whether it will be profitable.

Looking first at the salability of a new product, the key factor here is the perceptions of the channel members. They have to believe that they can sell the product; otherwise, they are not going to be enthusiastic about carrying it. In getting channel members to accept new products, the issue of ease of stocking and display has become more important than ever, as more and more new products compete for shelf space. Finally, the importance of the profitability of new products for channel members cannot be overstated. Retailers, and to an increasing extent wholesalers, recognize that the only real asset they have to sell is shelf space. Hence, they are not going to allow this precious space to be clogged by a proliferation of unprofitable products.

3) Fitting the New Product into Channel Member Assortments

The particular mix of products carried by any given channel member is his *assortment.* The channel member's assortment is analogous to a manufacturer's product mix. A key consideration on the marketing side should be whether existing channel members will view the new product as an appropriate one to add to *their* assortments. The channel manager should try to learn whether channel members feel competent to handle their new products. If the channel members feel qualms about adding the new product because they lack experience in handling such products, steps should be taken to allay these fears before introducing the product.

4) Educating Channel Members about New Products

It is not unusual for channel members to need special education or training provided by the manufacturer in order to sell new products successfully. This type of training or the extent of training will of course depend upon the new product offered.

5) Making Sure New Products Are Trouble Free

No channel member likes to take on a new product that will cause trouble. This applies to product problems that arise while the product is still in the channel member's inventory as well as those that may appear soon after the product is sold to the consumer. Problems with new products can range from being a nuisance that make it more difficult for the channel members to stock and sell, all the way to more serious flaws that can undermine the brand equity that channel members rely on to attract customers.

The Product Life Cycle and Channel Management

Product life cycle (PLC): A model for describing the stages through which a product passes. These stages are: introduction, growth, maturity, and decline. Not all products pass through this life cycle and all stages may not be nearly as distinct as those shown.

1) The Introductory Stage and Channel Management

During the introductory stage, strong promotional efforts are needed to launch a product. Thus, during this stage it is imperative for the channel manager to assure that channel members can provide adequate market coverage for the product.

2) The Growth Stage and Channel Management

As the product enters the growth stage, rapid market growth begins. In order to help sustain this growth, the channel manager faces two important challenges: a. To ensure that product availability is adequate so as not to inhibit growth b. To carefully monitor channel member actions with respect to competitive products The basic approach for dealing with the problem of availability is through *monitoring* the product flows as it moves through the channel. Formal and systematic reporting procedures are necessary for effective monitoring. The second problem, monitoring the channel members' actions with respect to competitive products, is of equal importance to monitoring one's own products. A manufacturer must fight competitors for the channel members' support to sustain the growth of the firm's product. While it may not be possible to anticipate all possible competitive actions impinging on the channel and to preplan channel strategies for each stage of the PLC, some effort in this direction is certainly possible. A manufacturer who has developed carefully planned programs for supporting channel members has the edge over the competitor who seeks the support of the same channel members but lacks previously planned programs.

3) The Maturity Stage and Channel Management

The slow growth or saturation characteristics of the maturity stage suggest two strategic emphases for channel management a. Extra emphasis should be put on making sure the product is more desirable for channel members. b. At the same time, possible changes in channel structure, particularly the selection of different types of intermediaries, should be investigated to forestall the decline stage and possibly create a new growth stage. In the face of slower growth or near-saturation, the sales and turnover rate for the product will decline for many of the channel members. In order to lessen the severity of this pattern, the channel manager must take steps to make the product *more* attractive to channel members. Such tactics as extra trade discounts, advertising allowances, special packaging deal discounts, and more liberal return policies are appropriate. A more comprehensive and long-term channel strategy for the maturity stage is to change the channel structure through which the product is distributed. In some cases, this may lead to a renewed growth stage for the product. While the channel manager should not attempt to change channels for a product as a matter or course, an investigation of this possibility is probably worth the effort.

4) The Decline Stage and Channel Management

Total demise is usually imminent when a product is in the decline stage. Given this situation, the channel manager should focus attention on two final channel implications: a. Can marginal outlets be phased out quickly to avoid further profit erosion? b. Will dropping the product cause an adverse reaction on the part of existing channel members? Even when a product has reached the decline stage, a substantial number of channel members may still be carrying it. Many of them will be low-volume, often ordering in very small quantities. The high-volume members will have already dropped the product. This leaves the channel manager with a high-cost, low-volume channel for the product, which further erodes an already deteriorating profit picture. Thus, the channel manager should consider whether the very-low-volume outlets should be phased out. Basically, this requires an analysis of the revenues produced by each outlet, weighed against the cost of servicing each of them. Unfortunately, the procedure for making this kind of analysis is not clear-cut.

Strategic Product Management and Channel Management

Successful product strategies depend on a variety of factors such as the quality, innovativeness, or technological sophistication of the products themselves, the capabilities of the managers charged with overseeing the product line, the financial capacity, and willingness of the firm to provide the promotional support often necessary to implement product strategies and several other factors. One of these other factors is the role played by channel members in implementing product strategies. Thus, the success of the manufacturer's product strategies is, at least to some extent – and sometimes to a very great extent – dependent upon the effectiveness of the channel members in carrying out the manufacturer's product strategies.

1) Product Differentiation and Channel Management

Product differentiation is probably the most widely used product strategy. In essence, product differentiation represents the manufacturer's attempt to portray a product or products as being different from competitive products and therefore more desirable to purchase, even though the price may be higher. The real key to creating a differentiated product is to get the consumer to *perceive* a significant difference. Channel members may be called upon to help create a differentiated product. The kinds of stores the product is sold in, the way it is displayed and sold, and the services provided can be critical in creating a differentiated product. Two channel management implications for product differentiation strategy can be derived. a. First, when product differentiation strategy is affected by *who* will be selling the product, channel managers should try to select and help develop channel members who "fit" the product's image. b. Second, when product differentiation strategy is influenced by *how* the product is sold at retail, the channel manager should provide retailers with the kinds of support and assistance needed to properly present the product.

2) Product Positioning and Channel Management

Product positioning refers to a manufacturer's attempt to have consumers perceive the products in a particular way relative to competitive products. If this is accomplished, the product is then "positioned" in consumers' minds as an alternative to other products that they currently use. While successful product positioning strategy depends upon many factors, the types of stores selling the product and how they display and promote it can be very important.

There are three implications for channel management in product positioning. a. First, the possible interfaces between the product positioning strategy and where the product will be displayed and sold to consumers should be considered *before* the positioning strategy is implemented. b. Second, retailer support in the form of proper merchandise presentation and display should be elicited before attempting to implement the positioning strategy. c. Finally, a sufficient "war chest" of funds should be available to provide retailers with attractive incentives to gain strong retailer acceptance in support of the positioning strategy.

3) Product Line Expansion/Contraction and Channel Management

At one time or another, most manufacturers find it necessary to expand or contract their product lines, often simultaneously. Such product line expansion and pruning strategies can create problems in dealing with channel members because it is very difficult to find a "perfect" blend of products in the line that will satisfy all channel members. So, from a channel management standpoint, product line expansion and pruning strategies present the manufacturer with a delicate balancing act of channel member satisfaction and support for reshaped product lines. Moreover, with the growing emphasis by channel members on *category management* (the management of product categories as business units) the demands made on manufacturers by channel members to have the right mix of products are becoming greater than ever. While there are no simple clear-cut approaches for always having the right mix of products to satisfy even more demanding channel members, several points are worth considering when dealing with the interface between product line expansion and contraction and channel strategy. These are: a. It makes good sense to incorporate channel member views before the expansion or contraction of product lines. b. The manufacturer should attempt to explain to channel members the rationale underlying product line expansion or deletion strategies. c. The manufacturer should try to provide adequate advance notice of significant product line changes to channel members to allow them sufficient time to prepare for such changes.

Trading Down, Trading Up, and Channel Management

Trading down: Refers to the addition of lower-priced products or a product line to a product mix than had typically been offered in the past. Trading up: Essentially the opposite – adding products or a product line that are substantially more expensive than other products in the line or mix. Trading down and trading up can be high-risk strategies because they may reflect profound departures from the company's normal base of operations. The manufacturer may now face: 1. new markets about which it may know very little 2. new competitors it has not faced before 3. quite possibly new channel members and/or new problems with existing channel members When making a decision to trade up or trade down, from a channel management perspective there are two problems to consider. The first is whether existing channel members provide adequate coverage of the high-end or low-end market segments to which the new product is aimed. If the answer is that they do not, then new channel members will have to be added and/or the basic design of the channel may have to be changed. The second problem is: Will the channel members have confidence in the manufacturer's ability to successfully market the trade-up or trade-down product? Channel members, whether at the wholesale or retail levels, develop certain perceptions about the kinds of products with which particular manufacturers are associated.

4) Product Brand Strategy and Channel Management

Most manufacturers have several options when considering product brand strategies. They might sell their products (1) under one national brand, (2) under several national brands (a “family” of brands), (3) under private brands, or (4) under both national and private brands. Any of these options may at certain times pose channel management problems. But it is the fourth option, selling under both national and private brands, that presents the most difficult channel management problems, because, when the manufacturer sells under both national and private brands, direct competition with channel members may result. Such dual distribution or multimarketing strategies are becoming increasingly common as national brand manufacturers seek to make use of excess production capacity and compete against private brand products made for large chain retailers.

If the competition becomes too direct, then this dual product brand strategy can create serious problems between the manufacturer and its channel members. Some attention paid to such channel issues *before* embarking on a dual national/private brand strategy will help alert the manufacturer to the need for setting clear channel management policies to guide dual brand strategies. Examples of such policies are: a. Not selling both the national and private brand versions of the products to the same channel members. b. Selling the national and private brands versions of the product in different geographical territories. c. Making the products physically different enough so that the direct competition between the national and private brand versions of the product will be minimized.

5) Product Service Strategy and Channel Management

Many products require service after the sale. Manufacturers of these products should make some provision for after-sale service, either by offering it directly at the factory, through their own network of service centers, through channel members, through authorized independent service centers, or by some combination of these. A marketing channel that provides for effective and efficient delivery of the product is still not fully effective or efficient if it does not provide for product service. If good product service is to be provided by the channel, however, the manufacturer must view the issue of product service as a basic strategic issue in product management and channel management. Indeed, the appeal of the product can be significantly enhanced through a strong service image. The manufacturer who expects strong cooperation from channel members in providing service must make it clear to channel members that service is an important part of the overall product strategy, and provide incentives for the channel members to cooperate in the service program.

PRICING ISSUES IN CHANNEL MANAGEMENT

Pricing strategy should incorporate channel considerations before being implemented. If the channel members perceive a manufacturer's pricing strategy to be congruent with their own interests, they are likely to have a higher level of cooperation and the reverse is also true.

In developing pricing strategies, there are eight guidelines: (1) profit margins should be adequate for channel members, (2) margins offered to different classes of channel members should vary in proportion to the functions the channel members perform, (3) margins should be competitive with those of rival brands, (4) special arrangements that result in either an increase or decrease in services rendered should be reflected in the margins, (5) the manufacturer should conform to conventional norms for margins in the trade, (6) variations in margins on different models should be logical, (7) if price points exist at the wholesale/retail levels they should be recognized and prices set to meet these price points, and (8) variations in prices by a manufacturer for different products in its line should be associated with visible or identifiable differences in its line.

There are five major pricing issues a manufacturer is likely to face: (1) pricing control in the channel, (2) the impact of major price policy changes, (3) the passing of price increases through the channel, (4) use of price incentives, and (5) the problems created by "gray market" and "free riding".

Anatomy of Channel Pricing Strategy

Participants at the various levels in the channel each want a part of the total price (the price paid by the final buyer) sufficient to cover their costs and provide a desired level of profit.

The "golden rule" of channel pricing when developing a pricing strategy is stated as follows:

"It is not enough to base pricing decisions solely on the market, internal cost considerations, and competitive factors. Rather, for those firms using independent channel members, explicit considerations of how pricing decisions affect channel member behavior is an important part of pricing strategy."

Pricing decisions can have a substantial impact on channel member performance. If channel members perceive the manufacturer's pricing strategy as congruent with their own interests, then a higher level of cooperation can be expected. And the reverse is also true. Therefore, the major challenge facing the channel manager in the area of pricing is to help *foster* pricing strategies that promote channel member cooperation and minimize conflict. Whenever possible, the channel manager should attempt to have channel members' viewpoints on pricing issues included as an integral part of the manufacturer's price-making process.

Guidelines for Developing Effective Channel Pricing Strategies

Oxenfeldt offers a set of eight classic guidelines for developing pricing strategies that incorporate channel considerations. While not comprehensive, they do provide a basic framework and benchmark for pricing decisions that incorporate channel considerations. These are:

1) Each efficient reseller must obtain unit profit margins in excess of unit operating costs.

2) Each class of reseller margins should vary in rough proportion to the cost of the functions the reseller performs.
3) At all points in the vertical chain (channel levels), prices charged must be in line with those charged for comparable rival brands.
4) Special distribution arrangements–variations in functions performed or departures from the usual flow of merchandise–should be accompanied by corresponding variations in financial arrangements.
5) Margins allowed to any type of reseller must conform to the conventional percentage norms unless a very strong case can be made for departing from the norms.
6) Variations in margins on individual models and styles of a line are permissible and expected. They must, however, vary around the conventional margin for the trade.
7) A price structure should contain offerings at the chief price points, where such price points exist.
8) A manufacturer's price structure must reflect variations in the attractiveness of individual product offerings.

1) Profit Margins

Channel members need margins that are more than adequate to cover the costs associated with handling a particular product. Channel members generally will not carry, let alone enthusiastically support, products whose margins are inadequate to cover their costs and provide room for profit.

Over time, those channel members who feel that the manufacturer is not allowing them sufficient margins are likely to seek out other suppliers or establish and promote their own private brands.

Thus, the channel manager should be involved in a continuous review of channel member margin structures to determine if they are adequate and pay particular attention to changes in the competitive environment that is likely to influence channel member perceptions of the existing margin structures.

2) Different Classes of Resellers

Ideally, the channel manager would like to set margins so that they would vary in direct proportion to the functions performed by different classes of channel members. In reality, however, margins at the wholesale and retail levels are typically governed by strong traditions that permeate the industry.

Nevertheless, periodic reviews of the margin structures available to different classes of channel members should be made, with a view toward making gradual changes if warranted.

Oxenfeldt suggests that the following questions be posed in this review:

a. Do channel members hold inventories?
b. Do they make purchases in large or small quantities?
c. Do they provide repair services?
d. Do they extend credit to customers?
e. Do they deliver?
f. Do they help train the customers' sale force?

The main point of periodically reviewing channel member services in relation to the margins granted them, is to find out whether there are any major inequities that are creating problems in the ranks of particular classes of channel members.

3) Rival Brands

Differentials in the margins available to channel members carrying competitive brands should be kept within tolerable limits. The practical question facing the channel manager attempting to apply this guideline is: What levels of margin differentials are within tolerable limits? Unfortunately, there is no straightforward answer to this question.

Channel managers, then, should attempt to weight any margin differentials between their own and competitive brands in terms of what kind of support their firms offer and what level of support they expect from channel members. If this relationship is found to differ significantly from the competition, differentials in margins should be examined in terms of these differences.

4) Special Arrangements

If the usual allocation of distribution tasks between the manufacturer and the channel members changes, the margin structure should reflect these changes.

5) Conventional Norms in Margins

Oxenfeldt points to the almost universal tendency of channel members to expect margins to meet generally accepted norms.

This strong commitment among channel members to what they consider to be normal, fair or proper margin makes it very difficult for the manufacturer to deviate from the conventional margin structures.

Thus it is the job of the channel manager to attempt to explain to the channel members any margin changes that deviate downward from the norm. While this might not guarantee that the channel members will support this change, at least it will convey the reasons for taking this action.

6) Margin Variation on Models

Variations in margins on individual models and styles in a product line are common. Traffic builders (often referred to as promotional products) are usually the lowest priced in the line and yield relatively low margins for both the manufacturer and channel members. Fortunately, channel members are often amenable to accepting the lower margins associated with these products so long as they are convinced of the promotional value of the product in building patronage. Margins on products in the line that are significantly below the norm and that are not intended as promotional products are much more difficult to justify in the eyes of the channel members. The channel manager should attempt to influence product line pricing to use low-margin products for promotional purposes whenever possible.

7) Price Points

Price points is the specific prices, usually at the retail level, to which consumers have become accustomed. In other words, consumers come to expect certain products to be available at customary prices. While most price points rise, sometimes price points can actually move down, as in the case of personal computer.

8) Product Variations

When a manufacturer attaches prices to the various models within a given product line, it should be careful to associate price differences in product features. If the price differences are not *closely* associated with *visible or identified product features*, the channel members will have a more difficult selling job to the consumer.

A little extra care by the manufacturer in thinking about the pricing of the product line *from the channel members' perspective* can mitigate this kind of pricing problem.

Other Issues in Channel Pricing

The channel manager is faced with other channel pricing issues that require more specific and detailed attention. Five of the most important are discussed in this section.

1) Exercising Control in Channel Pricing

As stated earlier, the manufacturer's pricing strategies often require channel member support and cooperation if they are to be implemented effectively.

Of all of the elements of the marketing mix, channel members view pricing as the area that is *most* in their domain. As soon as the manufacturer seeks to exercise some control over channel members' pricing strategies, channel members may feel that the manufacturer has stepped out of its proper boundary.

Yet, from the manufacturer's point of view, some of the most important pricing strategies may call for having some degree of control over the channel members' pricing policies. In attempting to influence some control, the manufacturer is faced with the difficult and delicate task of enforcing pricing policies without alienating channel members.

Although there is no surefire way to avoid the problem, several guidelines can be offered. These are:

a. Any type of coercive approaches to controlling channel member pricing policies should be ruled out.

b. Encroachment by the manufacturer into the domain of channel member pricing policies should be undertaken only if the manufacturer believes that it is in his or her vital long-term strategic interests to do so.

c. If the manufacturer does feel that it is necessary to exercise some control over channel member pricing policies, an attempt should be made to do so through what might be called "friendly persuasion".

2) Changing Price Policies

Another important channel pricing issue that the manufacturer is almost sure to face at one time or another is dealing with channel member reactions to major changes in the manufacturer's pricing policies and related terms of sale.

Major changes in the manufacturer's pricing policies are bound to affect channel members. Typically, channel members become very uneasy when they hear about significant changes in manufacturer pricing policies or terms of sale. Indeed, channel members' own pricing strategies may be closely tied to the existing policies of the manufacturer. Hence, a significant amount of communication and research into the *problems and issues* of channel members is needed to prevent channel conflicts from developing.

3) Passing Price Increases through the Channel

So long as each channel member is able to pass along manufacturer-initiated price increases to the next channel member, and ultimately to the final user, the price increase issue is not too worrisome.

But, when the increased prices cannot be totally passed through the channel, and hence channel members have to begin *absorbing* some or all of the price increases by cutting into *their* margins, price increases become a critical issue.

Added to the direct monetary difficulties arising from such nontransferable price increases is the ill will that they can create as each channel member blames the next for the price increase.

Unfortunately, such price increases are too simply passed along in rote fashion by the manufacturer (and other channel members) before other alternatives or strategies that could help mitigate the effects of the price increase are given adequate consideration.

Such alternatives and strategies include the following:

a. More thought to the long- and short-term implications of going through with the price increase versus attempting to hold the line on prices should be considered.

b. If passing on the price increase is unavoidable, the manufacturer should do whatever possible to mitigate the negative effects of the increase on channel members. Examples include: additional financial assistance, more liberal payment terms, special deals, or other price-related strategies.

c. The manufacturer could change its strategies in the other areas of the marketing mix, particularly product strategy, to help offset the effects of price increases. For example, the product could be "improved" or the product could be "downgraded" to maintain a price point.

4) Using Price Incentives in the Channel

Pricing strategy is frequently used by manufacturers as a promotional tool. A wide range of pricing devices is used to carry out such pricing strategy, including special deals, seasonal discounts, rebates, price reductions, coupons, two for the price of one, and
a variety of others.

Such enthusiasm for promotional pricing strategies shown by consumers is not always shared by channel members. Part of the problem can be solved merely by making pricing promotions as simple and straightforward as possible, so that channel members can participate with a minimum of time and effort.

The more significant problem underlying some price promotions, however, stems from the *differing price elasticities of consumers versus retailers (and wholesalers).* That is, consumers' responses to price reductions may differ significantly from those of retailers and wholesalers. The corresponding price incentives offered to retailers for participating in the price promotion (to consumers) may not be sufficient to stimulate *their* desire to be fully involved in the deal. Many retailers as well as wholesalers will take advantage of manufacturers' promotions by engaging in forward buying.

Forward buying: Channel members load up on the discounted products featured in the promotion by passing on the lower price to the consumer for just a portion of time. The rest of the product is held in inventory by the wholesaler or retailer for sale at the regular price after the promotional period has ended.

The solution to the problem of getting better mileage out of manufacturer-initiated price promotions begins with the recognition on the part of the manufacturer of the differing price elasticities between consumers and retailers.

Price promotion strategies should be designed to be *at least as attractive to retailers as they are to consumers.* Retailers and wholesalers often take advantage of price promotions so as to maximize *their* profit potential whether or not it helps the manufacturer or the final consumer.

5) Dealing with the Gray Market and Free Riding

Two of the most troublesome developments affecting the pricing policies and strategies of many manufacturers of branded products are the gray market and the related phenomenon of free riding.

- Gray market: Refers to the sale, usually at very low prices, of brand-name products by unauthorized distributors or dealers.

- Free riding: A term used to describe the behavior of distributors and dealers who offer extremely low prices but little if any service to customers.

The discounters get a “free ride” from the services provided by the higher-priced full-service distributors and dealers when the consumer uses the full-service distributors and/or dealers for product information, and then buy from the lower-priced vendor.

Gray markets and free riding can both be of serious concern to the manufacturers of the products involved if these practices are widespread enough to disrupt the manufacturers’ ability to manage their marketing channels.

Channel design decisions that result in more closely controlled channels and selective distribution as well as changing buyer preferences may help to limit the growth of the gray market and free riding.

PROMOTION ISSUES IN CHANNEL MANAGEMENT

One of the major tools the manufacturer uses for implementing an integrated promotional program is selling support by channel members. A manufacturer must carefully administer promotional strategies to help assure a high degree of channel member cooperation in the promotion of its products. Research shows that merely offering more monetary incentives is not sufficient to secure promotional cooperation from channel members.

Push promotional strategies can be placed into seven general categories: (1) cooperative advertising, (2) promotional allowances, (3) slotting fees, (4) display and selling aids, (5) in-store promotions, (6) contests and incentives, and (7) special deals and merchandising campaigns.

In addition, there are four “kinder and gentler” push promotions. These are: (1) training programs, (2) quota specification, (3) missionary selling, and (4) trade shows. The success of these promotional strategies is influenced greatly by the degree of cooperation the channel manager can secure from channel members in the implementation of these strategies.

In recent years, the term promotion has increasingly been used as shorthand for referring to all of the persuasive communications employed by businesses and other organizations. These include advertising, personal selling, publicity, sales promotion, sponsorship, and point-of-purchase communications. Some marketing texts use the term “integrated marketing communications” to refer to the systematic use of several or all of these tools in a coordinated effort to achieve maximum promotional impact.

Because most products and services are not sold directly to the final consumer, the promotion programs undertaken by producers, manufacturers, franchisors, and service creators need the assistance and support of channel members to be successful.

Thus the effectiveness of the manufacturer’s overall promotional strategy depends on *how skillful the manufacturer is in securing cooperation from independent channel members in implementing the promotional strategy.*

Some manufacturers rely on promotion in the form of advertising to their target markets to “pull” their products through the channel and hence indirectly secure channel cooperation. The belief underlying this so-called *pull strategy* is that by building strong consumer demands, the manufacturer will force channel members to automatically promote the manufacturer’s product because it is in their obvious self-interest to do so.

This strategy is often insufficient by itself to secure strong channel member promotional support.

An approach referred to as *push strategy*, requires more direct involvement by the manufacturer with channel members in the use of promotional strategies. The real concept underlying the push strategy should be one of *mutual effort and cooperation* between the manufacturer and channel members in the development and implementation of promotional strategies. The overall trend in promotional emphasis has been toward push promotion rather than pull, given the increasing size and power of retailers and wholesalers. About 50 percent of every money spent on promotion goes for push type promotions.

Promotional Strategies and Channel Member Cooperation

A wide variety of strategies call for the involvement of channel members in the promotion of the manufacturer’s products. Strategies that involve channel members stand a higher probability of being favorably received by channel members when they are *part of an overall program of manufacturer support of channel member needs.*

In short, the manufacturer must establish a comprehensive approach for providing support to channel members if their cooperation in the promotion of products is expected.

Quelch found four major shortcomings with many push promotions when they were not developed as an integral part of a more comprehensive program of channel member support. These are:

a. Frequent promotion deals erode consumer franchises for existing manufacturer brands, add to the expense of establishing new brands, and increase consumer price sensitivity.

b. Frequent discounts to channel members offered on products used in trade deals result in deal-to-deal purchases.

c. Trade buyers often take advantage of discounts but fail to provide the merchandising support called for and do not pass along all price discounts to consumers.

d. Some channel members respond to deals by purchasing well above their own requirements and reselling the excess merchandise to other retailers at a profit (called *diverting*).

Consequently, manufacturers may need to put more strategic emphasis on the development and support of their sales forces calling on the channel members to gain the support of the trade and consequently, gaining acceptance of the consumer.

Basic Push Promotional Strategies in Marketing Channels

Promotional strategies emphasizing the push approach initiated by the manufacturer but requiring channel member support and follow-through can take many forms. Most can be placed in the following seven categories: (1) cooperative advertising, (2) promotional allowances, (3) slotting fees, (4) displays and selling aids, (5) in-store promotions, (6) contests and incentives, and (7) special deals and merchandising campaigns.

1) Cooperative Advertising

One of the most pervasive forms of promotional assistance offered by the manufacturer to channel members is that of cooperative advertising. One of the most common is the sharing of costs on a 50-50 basis up to some percentage of the retailer's purchases from the manufacturer.

For the manufacturer, the effectiveness of cooperative advertising as a promotional strategy depends heavily on the level of support offered by the channel members.

Specifically, the channel members must:

a. Have sufficient inventory of the advertised product
b. Offer adequate point-of-purchase display
c. Provide personal selling support if required

Getting this kind of support requires careful administration of the cooperative program by the manufacturer.

2) Promotional Allowances

The most typical strategy used for promotional allowances is to offer the channel member a direct cash payment or a certain percentage of the purchases on particular products. The allowances are offered to encourage retailers to buy more of the manufacturer's products, to give the products more prominent shelf space, to feature the products in special floor or end-of-aisle displays, or to engage in other similar promotional activity.

The availability of scanner data has made it feasible for manufacturers to measure the effects of promotional programs more accurately.

But, such measurements are taken after the fact. If a manufacturer wants to do something up front to enhance channel member support and follow-through, the most positive step to take is to make sure that the promotional allowance program is consistent with channel member needs.

3) Slotting Fees

Slotting fees or slotting allowances: Payments (either in cash or merchandise) by manufacturers to persuade channel members, especially retailers, to stock, display, and support new products.

From the viewpoint of the channel manager, slotting fees must be viewed as a reality. The channel manager should attempt to work with retailers to discover areas of commonality leading to slotting fee arrangements that create more win-win, rather than win-lose situations.

4) Displays and Selling Aids

It is estimated that $25 billion is spent each year on displays and selling aids in all types of retail stores.

Besides, point-of-purchase (POP) displays, other common types of displays and selling aids include dealer identification signs, promotional kits, special in-store displays, and mailing pieces.

Displays and selling aids can be highly effective, but quite often manufacturers have difficulty getting retailers to use these materials. A wide disparity of perceived usefulness of such materials often exists between the manufacturer and channel members. Thus, the channel manager must make an effort to see whether the firm’s selling aids and displays are serving any useful purpose or whether they are more of a bother than a help.

5) In-store Promotions

Most in-store promotions are short-term events designed to create added interest and excitement for the manufacturer's products.

Regardless of the form of the in-store promotion, the key issue for the channel manager is whether the *retailers perceive benefits from it in the form of increased sales, profits or recognition for the store.*

6) Contests and Incentives

Contests and incentives sponsored by manufacturers to stimulate channel member sales efforts for their products are another popular form of promotion. Sometimes the impact of a contest or incentive promotion can be increased by tying it to some major event at the local, state, national, or even international level. Push money: Offering monetary rewards directly to channel member salespeople for "pushing" certain products. This type of incentives is given to push the product. In the development of any contest or incentive program, the manufacturer should go out of its way to determine the views of channel members toward such forms of promotion.

7) Special Promotional Deals and Merchandising Campaigns

Special promotional deals and merchandising campaigns comprise a catchall category. It includes a variety of push type promotional deals such as discounts to channel members to encourage them to order more products, favorable offers to consumers to foster larger purchases, percentage or cents-off offers, rebates, coupons, prizes, and premium offers.

The fact that special deals and merchandising campaigns are in such widespread use does not mean that most manufacturers are happy with them.

These kinds of trade deals can:

a. Erode consumer brand loyalty

b. Foster deal-to-deal purchasing by channel members

c. Fail to provide pass-through savings for consumers

d. Encourage the diverting of merchandise to other retailers and wholesalers

Trade loading, forward buying or channel stuffing: Occurs when manufacturers induce retailers and wholesalers to buy far more products than they can sell in a reasonable period.

Unfortunately, there is no simple solution to the problems created by such promotional deals. The only defense most manufacturers have is to develop carefully planned channel promotion strategies that are based on knowledge of channel member needs and that take a long-term perspective on promotion through the marketing channel.

"Kinder and Gentler" Push Promotion Strategies in Marketing Channels

Other promotional strategies, whose ultimate purpose is also to get channel members to push a particular manufacturer's products, stress doing so using more finesse, subtlety, and a more circuitous route. We refer to these as "kinder and gentler" push promotions. The most important of these are: (1) training programs, (2) quota specification, (3) missionary selling, and (4) trade shows.

1) Training Programs

Training programs aimed at improving the performance of the channel members' salespeople can be one of the most effective strategies for building channel member promotional cooperation. Such programs can demonstrate in a highly visible way the manufacturer's commitment to helping channel members in an area in which many of them need help.

In order to be effective, however, manufacturer-sponsored training programs for channel member salespeople must be planned to meet the particular needs of the channel members and must be implemented in a manner that is acceptable to them.

A) Wholesale Level Training Programs

Training programs at the wholesale level should be aimed at helping the wholesaler's salespeople in three major areas:

1. Their knowledge of the manufacturer's product
2. Their selling techniques
3. Their skill in counseling the customers they call on

B) Retail Level Training Programs

Training programs aimed at retail salespeople are useful for products that still need a significant level of personal sales assistance. Sales training at the retail level should emphasize:

1. Product knowledge
2. Selling technique

2) Quota Specification

Sales Quotas: The sales volume that manufacturers specify for channel members to generate during a certain period of time.

Manufacturers set quotas in the belief that they will spur channel members on to greater effort in return for rewards offered for reaching or exceeding the quotas.

Sales quotas if used properly can be an effective promotional strategy for improving channel member promotional support. The key to using quotas properly lies in the context in which they are presented to the channel members. If they are presented in a coercive fashion, they will produce ill will and conflict. Further, if the manufacturer's line does not make up an important part of the channel member's product mix, the channel member may simply ignore the quota. On the other hand, if quotas are developed in conjunction with the channel members, and if they are presented in the context of *providing information on the sales potentials* in the channel members' territories, they can be a positive force in fostering channel member support.

3) Missionary Selling

Missionary selling term was first used to describe the activities of manufacturer's salespeople who were sent specifically to convince distributors that they should handle the manufacturer's new products.

Today, the term is usually applied to any of the manufacturer's salespeople who are specially assigned to supplement the selling activities of channel members.

In the consumer goods industries, missionary salespeople can perform any of the following activities:

a. Checking wholesale and retail inventory levels

b. Calling on retailers to inform them of new products

c. Helping to arrange window and in-store displays

d. Answering the wholesalers' and retailers' questions and providing advice and training

e. Trying to promote goodwill

f. Taking orders for merchandise

In the business-to-business market, they are often involved in:

a. Training distributor salespeople

b. Accompanying distributor salespeople on sales calls to assist their selling efforts

c. Taking initial orders for new products from the final user

d. Providing technical assistance

e. Helping distributors' salespeople to close sales, especially those requiring technical expertise

The use of missionary salespeople in building channel member promotional support is a two-edged sword. On the positive side, missionary selling is a useful promotional strategy when the channel member lacks the sales capacity or competency to handle all of the tasks assigned and *desires* this kind of assistance.

On the negative side, several problems can exist:

a. Using missionary salespeople is expensive

b. Missionary selling can lead to conflicts in the channel when these missionary salespeople begin performing many of the channel member's tasks

c. Some channel members view missionary salespeople as bothersome because they take up too much of the time of their own sales force

The channel manager must therefore pay careful attention to the attitudes of channel members toward the use of missionary salespeople.

4) Trade Shows

Trade shows are usually annual events organized by associations in industries. The main objective of participating in a trade show (aside from making sales) is to attain the maximum impact and gain the widest recognition for the firm's products– especially new products– and thus enhance the firm's recognition and respect among its relevant publics. From the standpoint of the manufacturer, using trade shows as a promotional strategy for motivating channel members can be worthwhile.

a. It provides an opportunity to sell to existing and new channel members.

b. It provides an opportunity to show channel members new products, strategies, and promotional programs on a face-to-face basis.

c. It offers a chance to socialize with channel members in ways that might not be possible in the course of regular business relationships.

d. Perhaps the most important from a long-run channel promotional strategy standpoint, is that a strong presence and impact made by the manufacturer – especially if it seems to shine above other competing manufacturers at the show – can create a sense of pride and belonging in the channel members that sell its products.

LOGISTICS AND CHANNEL MANAGEMENT

Logistics, the synonymous term of physical distribution, involves planning, implementing, and controlling the physical flow of materials from the point of origin to the point of the consumer at a profit. The role of logistics is to get the right amount of product to the right places in the right time.

There are six components of the logistics system: (1) transportation, (2) materials handling, (3) order processing, (4) inventory control, (5) warehousing, and (6) packaging.

Channel management interfaces with logistics management in four areas: (1) defining channel member service standards, (2) making sure a proposed logistics program meets these standards, (3) selling the program to the channel members, and (4) monitoring the program to see if it continually meets the demands of the channel members.

No matter how well designed and/or well implemented, over time channel members' changing needs are sure to create shortcomings. Careful monitoring of the system should help spot such deficiencies before they become areas of channel conflict.

Logistics or physical distribution (PD): Planning, implementing, and controlling the physical flows of materials and final goods from points of origin to points of use to meet customers' needs at a profit.

Supply chain management: Emphasizes close cooperation and comprehensive interorganizational management to integrate the logistical operations of the different firms in the channel.

Four Key Areas of Interface between Logistics and Channel Management

Channel management and logistics management go together hand in hand to provide effective and efficient distribution. The meshing of channel management and logistics management requires good coordination.

This especially applies to four major areas of interface between channel management and logistics management.

1) Defining the kinds of logistics service standards that channel members want
2) Making sure that the proposed logistics program designed by the manufacturer meets the channel member service standards
3) Selling the channel members on the logistics program
4) Monitoring the results of the logistics program once it has been instituted

1) Defining Logistics Service Standards

In general, the higher the service standards the manufacturer offers the higher the costs. It is usually not possible to completely escape the trade-off of higher costs for higher service standards. Thus, the key issue facing the channel manager with respect to defining logistics service standards is to determine precisely the types and levels of logistics service desired by the channel members. To deal with this issue effectively, the channel manager needs to obtain the channel members' views about what kinds of service standards they want before developing a logistics program. However, fewer than 20 percent of manufacturer's make a systematic attempt to find out the service standard needs of their customers. Bienstock, Mentzer, and Bird found three key factors–the timeliness of deliveries, the availability of products, and the condition of products–significantly influenced purchasing managers' perceptions of the quality of logistical service, with timeliness being the most important of the three. These authors called this physical distribution service quality (PDSQ). The development of logistics service standards should not be based solely on what the manufacturer wants; the views of the channel members should also be incorporated. If this is done, the set of logistics standards is much more likely to reflect what the channel members actually want.

2) Evaluating the Logistics Program

A logistics program may be offered to channel members as a separate entity or may be included as a major component of the manufacturer's overall approach for supporting channel member needs. The logistics program may be a key feature of a channel "partnership" or strategic alliance.

The channel manager should play a role to ensure that the program does indeed meet the channel members' service requirements. It does require the channel manager to have a clear understanding of the objectives of the logistics program. In short, it is the job of the channel manager to make sure that the program is really what the channel members want.

3) Selling the Channel Members on the Logistics Program

Stewart suggests several types of appeals to help sell the logistics program to channel members. Manufacturers should emphasize that a new logistics program can foster:

A) Fewer out-of-stock occurrences.

B) Reduced channel member inventories

C) Increased manufacturer support for channel members.

A) Minimizing Out-Of-Stock Occurrences

By minimizing out-of-stock occurrences through an improved logistics program, sales lost by the channel members will be reduced. Overselling the benefits of the new system to the channel members should be avoided due to some systems failing to live up to expected promises. Two systems that do seem to work are computer-to-computer ordering and EDI.

B) Reducing Channel Member Inventory Requirements

A well-designed and responsive logistics program can mean shortened channel member order cycles, which means that they can carry less inventory.

Kanban system or Just in Time Inventory (JIT): The principle of JIT is to have only enough inventory on hand to meet the immediate production requirements with no reserve stock.

JIT depends upon excellent cooperation between the manufacturer and its suppliers and also on a superbly designed and executed logistics system. If done well, it can reduce inventory costs by sometimes well over 50 percent!

C) Strengthening the Manufacturer–Channel Member Relationship

A carefully designed logistics program aimed at improving service to the channel members can serve as one of the most tangible signs of the manufacturer's concern and commitment to the channel members' success. In presenting a proposed logistics program to the channel members, the manufacturer should emphasize that the program was conceived to help them (channel members) be more successful. An improved logistics management system offers great potential as a strategic marketing tool – as it will offer greater potential to those manufacturers who are able to, with their superior logistics capabilities, help channel members improve their logistics and marketing capabilities as well.

4) Monitoring the Logistics System

Logistics systems must be continuously monitored, both in terms of how successful they are in performing for the manufacturer and, just as important, how well they are meeting channel member needs. The channel manager should continually monitor the channel members' reactions to the logistics program. The most effective way is to conduct a survey of a sample of channel members. The survey should be part of the overall marketing channel audit. If the survey or audit finds areas for improvement or deficiencies, the manufacturer must actually follow through and make these improvements or correct these deficiencies. Channel member satisfaction with the manufacturer's logistics program tends to decrease when channel members, who pointed out the deficiencies, do not see subsequent improvements or attempts to improve. A manufacturer is more likely to make these changes if it views the logistics program as an integral part of its overall marketing program.

MOTIVATING THE CHANNEL MEMBERS

Channel management is necessary, and a fundamental part of channel management is that of motivating the channel members. The facets of motivation management in the channel are: (1) learning about the needs and problems of the channel members, (2) developing programs to support their needs, and (3) providing leadership. Good channel support programs require careful planning and fall into three areas: (1) cooperative agreements, (2) partnership and strategic alliances, and (3) distribution programming.

Leadership must still be exercised on a continuing basis if motivation programs are to operate effectively and viably.

Motivation:

Refers to the actions taken by the manufacturer to foster channel member cooperation in implementing the manufacturer's distribution objectives.

There are three basic facets involved in motivation management:

1. Finding out the needs and problems of channel members
2. Offering support to the channel members that is consistent with their needs and problems
3. Providing leadership through the effective use of power

Finding Out the Needs and Problems of Channel Members

Before the channel manager can successfully motivate channel members, an attempt must be made to learn what the members want for the channel relationship. Manufacturers are often unaware of or insensitive to the needs and problems of their channel members.

1) Approaches for Learning about Channel Member Needs and Problems

All marketing channels have a flow of information running through them as part of the formal and informal communications systems that exist in the channel. Ideally, such systems would provide the manufacturer with all of the information needed on channel member needs and problems. However, most marketing channel communication systems have not been formally planned and carefully constructed to provide a comprehensive flow of timely information.

Consequently, the channel manager should not rely solely on the regular flow of information coming from the existing channel communication system for accurate and timely information on channel member needs and problems.

There is a need to go beyond the regular system and make use of one or all of the following four additional approaches.

A) Research Studies of Channel Members

Most manufacturers never conduct research of channel member needs and problems. Estimates indicate that less than one percent of manufacturers' research budgets are spent on channel member research.

B) Research Studies by Outside Parties

Research designed and executed by a third party is sometimes necessary if complete and unbiased data on channel member needs and problems are to be obtained.

The use of outside parties to conduct research on channel member needs and problems provides higher assurance of objectivity.

C) Marketing Channel Audits

The basic thrust of this approach should be to gather data on how channel members perceive the manufacturer's marketing program and its component parts, where the relationships are strong and weak, and what is expected of the manufacturer to make the channel relationship viable and optimal. For example, a manufacturer may want to gather data from channel members on what their needs and problems are in areas such as:

- Pricing policies, margins, and allowances
- Extent and nature of the product line
- New products and their marketing development through promotion
- Servicing policies and procedures such as invoicing, order dating, shipping, warehousing and others
- Sales force performance in servicing the accounts

Further, the marketing channel audit should identify and define in detail the issues relevant to the manufacturer–wholesaler and/or manufacturer–retailer relationship. Whatever areas and issues are chosen, they should be cross-tabulated or correlated as to kind of channel members, geographical location of channel members, sales volume levels achieved, and any other variables that might be relevant. Finally, for the marketing channel audit to work effectively, it must be done on a periodic and regular basis so as to capture trends and patterns. Emerging issues are more likely to be spotted if the audit is performed on a regular basis.

D) Distributor Advisory Councils

Three significant benefits emerge from the use of a distributor advisory council. First, it provides recognition for the channel members. Second, it provides a vehicle for identifying and discussing mutual needs and problems that are not transmitted through regular channel information flows. And third, it results in an overall improvement of channel communications, which in turn helps the manufacturer to learn more about the needs and problems of channel members, and vice versa.

Offering Support to Channel Members

Support for channel members refers to the manufacturer's efforts in helping channel members to meet their needs and solve their problems. Such support for channel members is all too often offered on a disorganized and ad hoc basis.

The attainment of a highly motivated cooperating "team" of channel members in an interorganizational setting requires carefully planned programs.

Such programs can generally be grouped into one of the following three categories: (1) cooperative, (2) partnership or strategic alliance, and (3) distribution programming.

1) Cooperative Arrangements

Cooperative arrangements between the manufacturer and channel members at the wholesale and retail levels have traditionally been used as the most common means of motivating channel members in conventional, loosely aligned channels.

The underlying rationale of all such cooperative programs, from the manufacturer's point of view, is to provide incentives for getting extra effort from channel members in the promotion of the products.

2) Partnerships and Strategic Alliances

Partnerships or strategic alliances stress a continuing and mutually supportive relationship between the manufacturer and its channel members in an effort to provide a more highly motivated team, network, or alliance of channel partners.

Webster points to three basic phases in the development of a "partnership" arrangement between channel members.

- An explicit statement of policies should be made by the manufacturer in such areas as product availability, technical support, pricing and any other relevant areas.
- An assessment should be done of all existing distributors as to their capabilities for fulfilling their roles.

- The manufacturer should continually appraise the appropriateness of the policies that guide his or her relationship with channel members.

Webster's basic guidelines can be used for establishing partnerships or strategic alliances in marketing channels.

3) Distribution Programming

Distribution programming: "A comprehensive set of policies for the promotion of a product through the channel."

The essence of this approach is the development of a planned, professionally managed channel. The first step in developing a comprehensive distribution program is an analysis by the manufacturer of marketing objectives and the kinds and levels of support needed from channel members to achieve these objectives.

Further, the manufacturer must ascertain the needs and problem areas of channel members. Nevertheless, virtually all of the policy options available can be categorized into three major groups:

a. Those offering price concessions to channel members

b. Those offering financial assistance and non financial assistance

Financial assistance

Financial assistance include higher margins extended credit time, bonuses, and reimbursement of expenses. The problem with most financial rewards, particularly higher margins and bonus, is that retailers use them to reduce prices for their customers. The net effect is that effectively their profits never go up. Hence, when the financial rewards are going to be retained by dealers, non financial rewards assume importance.

Non-Financial assistance

The Non-financial assistance are contests, public recognition for higher performance through mementos, paid holidays at company expense at holiday resorts in India and abroad non-financial incentives and training. Bajaj

Electricals, Parle (Exports), Philips and several others are known to acknowledge their high performing dealers or franchises at their annual get togethers. Companies like Reliance, Videocon and others are known to sponsor holidays for their high performance dealers at foreign destinations like Bangkok, Singapore and so on.

Some other non-financial motivation schemes, aimed at making channel members partners and manufacturers salesperson some times spending a day with dealers representatives in market and jointly "breaking in" major or through customers.

Increasingly, today the task of motivating channel members is becoming complex and demands an innovative approach to making channel members partners corporate growth.

c. Those offering some kind of protection for channel members

Providing Leadership to Motivate Channel Members

Control must still be exercised through effective leadership on a continuing basis to attain a well-motivated team of channel members. Seldom is it possible for the channel manager to achieve total control, no matter how much power underlies his or her leadership attempts. For the most part, a theoretical state, where the channel manager were able to predict all events related to the channel with perfect accuracy, and achieve the desired outcomes at all times, does not exist or is not achievable in the reality of an interorganizational system such as the marketing channel.

EVALUATING CHANNEL MEMBER PERFORMANCE

The scope and frequency of channel member performance evaluations are affected by (1) the degree of manufacturer's control over the channel members, (2) the relative importance of channel members, (3) the nature of the product, and (4) the number of channel members involved. While many criteria can be used to evaluate channel member performance the most basic and important of these are: (1) sales performance of channel members to their customers, (2) the level of inventory maintained, (3) channel members' selling capabilities, (4) attitudes of channel members, (5) the way channel members deal with competitive product lines and competitors, and (6) the general growth prospects of channel members. The application of these criteria to evaluate channel member performance can be approached in three ways: (1) separate performance evaluations on one or more criteria, (2) multiple criteria combined informally, and (3) multiple criteria combined formally to arrive at a quantitative index. Corrective actions should be taken for those channel members who do not meet minimum performance standards. The channel manager should attempt to uncover why these problems exist (the underlying cause) and help channel members to solve these problems.

The success of the firm in meeting its objectives depends on how well the firm's independent channel members perform. In evaluating channel members, the channel manager is dealing with independent business firms and the setting of the evaluation process is interorganizational. There are two important background issues related to channel member performance evaluation. These are: (1) factors affecting the scope and frequency of evaluations and (2) the distinction between monitoring channel member performance and comprehensive performance evaluation.

Factors Affecting Scope and Frequency of Evaluations

Four factors affect the scope and frequency of channel member evaluations: (1) degree of the manufacturer's control over the channel members, (2) relative importance of the channel members, (3) nature of the products, and (4) number of channel members.

1) Degree of Control

The degree of control a producer, manufacturer, or franchisor has over its channel members plays a major role in determining the scope and frequency of its evaluation. If the degree is strong, then the manufacturer can demand a greater amount of information on the channel members' performance. If the manufacturer lacks strong control over its channel members, then the amount of information available to the channel manager is limited.

2) Importance of Channel Members

For the manufacturer who sells all of its output through intermediaries, the evaluation of channel members is likely to be much more comprehensive than for manufacturers who rely less on intermediaries. This is because the firm's success in the market is so directly dependent on the channel members' performance.

3) Nature of the Product

Generally, the more complex the product is, the broader the scope of the evaluation, and vice versa. For products of very high unit value, the channel manager is likely to evaluate the channel members' performance carefully.

4) Number of Channel Members

For the manufacturer using intensive distribution, channel member evaluation may be little more than an "evaluation by exception". At the other end, manufacturer's who use selective distribution find that their close working relationships with their channel members gives them access to a broad range of data enabling them to conduct very comprehensive performance evaluations.

Performance Evaluations versus Day-to-Day Monitoring

The first type of evaluation is basically a routine, day-to-day monitoring of the performance of the channel members based almost exclusively on sales criteria. The second approach is a much broader and more comprehensive evaluation procedure that usually involves a number of criteria besides sales. This is referred to as a *channel member performance audit.*

Channel Member Performance Audit

Channel member performance audit is a periodic and comprehensive review of channel member performance. The channel member performance audit consists of three phases: (1) developing criteria for measuring channel member performance, (2) periodically evaluating channel members' performance against the criteria, and (3) recommending corrective actions to reduce inadequate performances.

1) Developing Criteria

Many possible criteria can be used. Most manufacturers use a combination of the following: sales performance, inventory maintained, selling capabilities, attitudes, competition faced by channel members, and the general growth prospects of the channel members.

A) Sales Performance

Sales performance is the most important and commonly used criterion for evaluating channel member performance. In examining the channel member's sales performance, the channel manager should distinguish between: Sales of the manufacturer to the channel member The channel member's sales of the manufacturer's products to customers Whenever possible, the channel manager should attempt to get sales data from the channel members on their sales of the manufacturer's product to their customers. If unavailable, then the manufacturer must use data on sales to the channel members as its best approximation. The channel manager should evaluate sales data in terms of the following: A comparison of the channel members' current sales to historical sales. Here the channel manager should look for both total figures and specific figures by product line if data is available. Cross comparisons with those of other channel members. It is quite common for a small number of channel members to account for a major portion of the sales (80/20 rule). Often this pattern results in a disproportionately high level of marketing costs relative to the sales generated by low-performing channel members. Comparisons of the channel member's sales with predetermined quotas, if assigned. The channel manager should look at the actual sales in comparison to the quota and, not only look at the ratio itself, but also consider it in light of the performances turned in by other channel members.

B) Inventory Maintenance

Maintaining an adequate level of inventory is another major indicator of channel member performance. Essentially, the manufacturer wants the channel member to live up to its obligations regarding inventory-stocking requirements. If the manufacturer puts a great deal of weight on inventory maintenance as a criterion of channel member performance, an attempt should be made to include this in a formal agreement during the selection phase of channel design.Actual checking on the level of inventory maintained by the channel member may range from being simple to very difficult.

C) Selling Capabilities

Many manufacturers believe it is worthwhile to evaluate channel members' sales capabilities more directly by appraising their salespeople. The manufacturer should pay attention to such factors as: The number of salespeople the channel member assigns to the manufacturer's line. This provides insight into the exposure and market coverage the manufacturer's products are receiving. The technical knowledge and competence of the channel member's salespeople. Technical and competence ratings are judgmental where the amount of extra sales time requested by a channel member is a proxy measure of the salesperson's technical knowledge and competency. Salesperson interest in the manufacturer's product. This can be measured by the use of attendance at manufacturer-sponsored seminars, schools, and clinics, reports from the channel member's customers, and the manufacturer's own field salespeople.

D) Attitudes of Channel Members

The importance of favorable channel member attitudes toward the manufacturer and its product lines should not be underestimated as a criteria that affects sales performance. Unfortunately, channel member attitudes are usually not evaluated until their sales performance is unsatisfactory. Attitudinal problems are addressed only *after* they have contributed to poor performance. In order to spot negative channel member attitudes *before* they affect performance, attitudes should be evaluated independently of sales data.

E) Competition

The channel manager should consider two types of competition when evaluating channel member performance: Competition from other intermediaries. This helps put channel member's performance in perspective. If it turns out that the territory is composed of extraordinary levels of competition, the manufacturer may be able to provide extra support to the channel member. Second, this information can be useful in the event that the manufacturer wants to add new channel members or replace existing ones. Competition from other product lines carried by the manufacturer's own channel members. The main question to evaluate here is the relative support offered by

the channel member for the manufacturer's products versus the manufacturer's competition. By spotting changes in emphasis early, the channel manager can take appropriate measures *before* the channel member's actions are reflected in lower sales figures.

F) General Growth Prospects

In periodically evaluating channel members in terms of the growth prospect, the channel manager will gain valuable overall view of the total channel system. This will provide highly useful information for formulating realistic objectives for the coming year(s) and particularly for projecting the role of the channel members in the company's future marketing strategies.

G) Other Criteria

The most important of these criteria is the financial status of channel members, their character and reputation, and the quality of service offered by channel members to their customers. If channel members have been paying their bills promptly, there is usually little need for further evaluation. Some manufacturers make regular reviews of their channel members' financial statements to obtain early warning signs of possible financial deterioration that might adversely affect the manufacturer at a later date. With respect to the character and reputation of channel members, changes can occur, especially if there has been a change of ownership or if changes have been made to a channel member's operating policies. This evaluation can usually be accomplished by talking to the channel members' customers. The quality and service offered by channel member is ultimately reflected in their sales performance. If it is suspected that particular channel members may be slipping in providing service to their customers, the manufacturer should investigate this problem before it shows up in decreased channel member sales performance. Finally, is the concept of channel member satisfaction. This criterion has been labeled as "social satisfaction" rather than "economic satisfaction" of what channel members want from the relationship.

2) Applying Performance Criteria

There are essentially three approaches that may be used: A) Separate performance evaluations on one or more of the criteria

B) Multiple criteria combined informally to evaluate overall performance qualitatively C) Multiple criteria combined formally to arrive at a quantitative index of overall performance.

A) Separate Performance Evaluations

Separate performance evaluations measure channel member performance against one or more of the criteria discussed previously. The operational measures used to evaluate performance are applied separately. The advantage of this approach is that it is simple and fast. A significant disadvantage is that this separate approach offers little insight into overall performance.

B) Multiple Criteria Combined Informally

This approach attempts to combine the various criteria into an overall judgment about channel member performance. The various performance measures are combined only in an informal and qualitative manner; that is, the relative importance and weights assigned to each of the performance measures are not made explicit and no formal quantitative index of overall performance is computed. This approach is often referred to as the “black box” type. The major advantage is its simplicity and flexibility. Three major problems are associated with this approach, however. The first involves trade-offs in performance ratings (done well in one, not so well in another). The second is that of making performance comparisons among channel members, and the third is that this approach still does not offer a single quantitative index reflecting overall performance.

C) Multiple Criteria Combined Formally

A formal rating system using multiple criteria enables the channel manager to arrive at an overall quantitative performance rating for each channel member. This approach consists of the following five steps: 1. Criteria and associated operational measures are decided on. 2. Weights are assigned to each of the criteria to reflect their relative importance. 3. Each channel member being evaluated is then rated on each of the criteria on a scale of 0 to 10. 4. The score on each criterion is multiplied by the weight for that criterion. This yields weighted criterion ratings. 5. The weighted criterion ratings are summed to yield the overall performance rating (index) for each channel member.

If more than one operational method is used to represent each criterion category, weights may be assigned to each of the measures and the scoring done on each of the measures. Total scores for each criterion are then added together to arrive at the overall performance score. The major advantages of this approach are that the weights assigned to the criteria and the associated operational performance measures are made explicit, and an overall quantitative index of performance is obtained.

3) Recommending Corrective Actions In general, manufacturers should try to recommend corrective actions to improve the performance of channel members who are not meeting minimum performance standards. Terminations of these channel members should be used only as a last resort.

CHANNEL DYNAMICS

Distribution channels do not stand still. New wholesaling and retailing institutions emerge, and new channel system evolves. In this section will look at the recent growth of vertical, horizontal and multi channel marketing systems.

VERTICAL MARKETING SYSTEMS

One of the most significant recent channel developments is the rise of vertical marketing systems, which have emerged to challenge conventional marketing channels. A conventional marketing channel comprises an independent producer, wholesaler, and retailer. Each is a separate business entity seeking to maximize its own profits. No channel member has completed a substantial control over the other members.

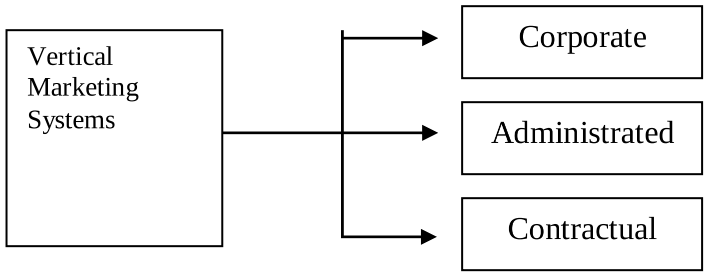
A vertical marketing, marketing system (VMS) by contrast, comprises the producer, wholesaler and retailer acting as a unified system. One channel member owns the others a franchises them or has so much power that they all cooperate. The vertical marketing system can be dominated by the producer, the wholesaler or the retailer.

A marketing channel that is professionally managed and centrally controlled by a single marketing channel member is a vertical marketing system(VMS).

Vertical marketing system improve distribution efficiency by combining the efforts of individual channel members.

TYPES OF VERTICAL MARKETING SYSTEM.

There are three types of vertical marketing system.



Corporate Vertical Marketing System

In corporate VMS, successive stages of a marketing channel are united under one owner ship. A corporate VMS combines successive stage of production and distribution under single ownership. For example, singer owns the retail outlets that sell is sewing machines, fire stone Tire & Rubber co owns many of the outlets that sell its tires. Raymonds owns some retail stores across the country, while also producing textiles and woolens. Bata and woodlands own their shoe shops across the country while also manufacturing foot wears.

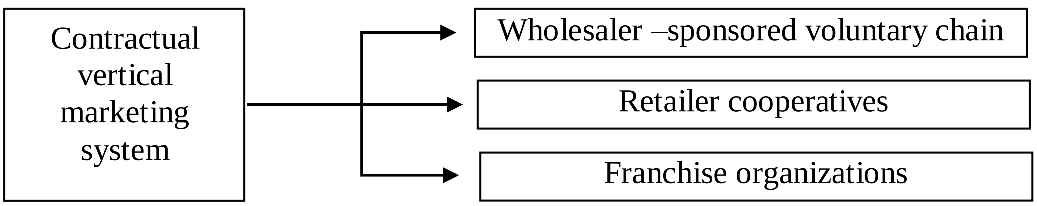
Administrated Vertical Marketing System

In administrated VMS, a marketing channel in which channel members remain independent but informal coordination allows for effective inter organizational management. An administrated VMS coordinates successive stages of production and distribution not through common ownership but through the size and power of one of the member. Manufactures of dominate brand are able to secure strong trade cooperation and support from resellers. Brand leader or firms that are market leaders are able to obtain trade cooperation. Firms like Hindustan Lever, Lipton, Proctor and Gamble, Nestle, Telco, Maruthi and others are able to get shelf space, promotional support, and also support for price policies from the trade, mainly because their brands are market leaders. Kellogg Co., Campbell soup company use administrated channels.

Contractual Vertical Marketing System

In a contractual VMS, a marketing channel in which channel members are independent but have inter organizational relationships that are formalized through contracts or other legal agreements. A contractual VMS consists of independent firms at different level of production and distribution integrating their programs on a contractual basis to obtain more economics and / or sales impact than they could achieve alone, many computer training companies like NIIT, Aptech, SSI, etc. grew through this model. Johnson and Lawrence call this as "Value–adding partnerships"(VAPs).

Contractual VMS are of three types.



WHOLESALER – SPONSORED VOLUNTARY CHAIN

Wholesalers organize voluntary chains of independent retailers to help them complete with large chain organization. The wholesaler develops a program in which independent retailers standardize their selling practices and achieve buying economies that enable the group to complete effectively with chain organizations. A wholesaler, by banding together a number of independently owned retailers in a voluntary group, can provide goods and support services for more economically than these some retailers could secure solely as individuals.

McKesson’s greatest strength is the nearly 3300 independent drug stores that operate as part of its voluntary chain under the value-Rite name, which provides purchasing power, sales promotions and ancillary services from car leasing to insurance.

RETAILER COOPERATIVES

Retailer cooperatives consists of independent retailers who set up a central buying organization and conduct joint promotional efforts. It is a voluntary association, but the impetus for the cooperative come from the retailers rather than from a wholesaler. The retailers might take initiative and organize a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchase through retailer cooperatives and plan their advertising jointly. Profit are passes back to members in proportion to their purchases. Retailer–sponsored cooperatives have been important in the marketing of foods. For example, Topco Associates is owned cooperatively by a group of supermarket chains and grocery wholesalers located in various markets through out the country. The TOPCO’S control function is to serve its 25 owner-member companies in the purchasing, product development, quality control, packing and promotion of a wide variety of private label (controlled-brand) food such as Top Frost, Food club and non-food products.

Expect for ownership difference, wholesaler and retailer cooperatives operate in much the same ways. Members join with the understanding that they will purchase a substantial portion of their merchandise from the group and will standardize retail advertising, identification and operating procedures as necessary to confirm with those of the group to obtain economics and better impact. Members usually contribute to a common advertising fund and operates stores under a common name.

In theory, wholesaler- sponsored voluntary group should be move effective competition then retailer cooperatives, primarily because of the difference in channel organization between the two. In the wholesaler sponsored voluntary group, a wholesaler can provide strong leadership, because it represents the locus of power with in the system. In a retailer – sponsored cooperative, power is diffused through out the membership and therefore role specification and resource allocation are more difficult to accomplish. In the wholesaler voluntary group, the retail member's have relinguished some of their autonomy by making themselves highly dependent on specific wholesalers for expertise. In retailer cooperatives, individual members tend to retain more autonomy and thus may tend to depend much less strongly on the supply unit for assistance and direction.

FRANCHISE SYSTEM

One of the most confusing problems in understanding contractual vertical marketing systems is the term franchise it self. Franchising generally refers to a specific way of getting into business and ensuring a revenue stream once outlets are established. It involves such things as royalty payments, fees, and initial charges that franchisees pay to franchisors. There are, however, lots of franchise arrangements that do not involve such cumbersome transactions. In these cases, frequently called "Product franchising." some one (a manufacturer or a wholesaler, usually) franchises (authorizes) retailers or dealers to be part of its system of selective or exclusive distribution. Payment to the organizer of the system is generally though the gross margins received on the sale of merchandise to the "authorized franchise outlets". Business land stores are authorized franchise outlets for IBM personal computers; in contrast the local McDonald's restaurant is most likely a franchisee of McDonald's Corporation. In both cases the retailers are independent businessmen, and in both cases a contract exists that specified roles. But the systems are very different in terms of the financial and managerial arrangements that binds the parties. In the former instance, the relationships between Businessland and IBM is forged with respect to specific products trademarked by IBM that it sells outright to Business land. In the latter case, McDonald's relationship with its franchisees involves royalties and an entire business format that McDonald's instructs its franchisees to use.

It is because of this confusion that the remainder of this section is divided into two parts, the first dealing with authorized franchise systems and the other with franchisee/franchisor systems.

Authorized Franchise System To maintain some semblance of control over the marketing of their products, suppliers will authorize wholesale or retail outlets. Simply put, the means that they are trying to limit the distribution of their products to those outlets that meet some minimum criteria they have establishes regarding the outlet's degree of participation in one or more of the marketing flows. In these situations a franchisor authorizes distributors (wholesalers or retailers or both) to sell a product or product line using it trade name for promotional purposes. The focus in product franchising is on what is sold. Examples are authorized tire, auto, computer, major appliance, television, and household furniture dealers whose suppliers have established strong brand names. Such authorization can also be granted at the wholesale level-for example, to soft drink bottlers and distributors or dealers by manufacturers of electrical and electronics equipments(Square D, Allen Bradley, General Electric), office furniture (steelcase), machine tools (DoAll), and semiconductors (Texas Instruments, Motorola).

Franchisor/Franchisee System A franchisor/franchisee system is defined here as an entire business format where one firm (the franchisor) licenses a number of outlets (franchisees) to market a product to service and engage in a business developed by the franchisor using the latter's trade names, trademarks, service marks, know-how, and methods of doing business. In contrast to product franchising, the focus here is on how the business is run. The franchisor's primary compensation comes in the form of royalties and/or fees. The franchisor may also sell the products, sell or lease the equipment, and/or sell or lease the premises necessary to the operation. For example, McDonald's insists that all of its units purchase from approved suppliers, provides building and design specifications, provides or helps locate financing for its franchisees, and issues quality standards that each unit must abide by in order to hold its franchise.

Franchisor/franchisee systems are present in almost all business fields. It can be readily seen that the franchisee system covers a wide variety of goods and services – accounting services, auto accessories, auto rentals, campgrounds, computer services, dry cleaning, employment agencies, fast foods, convenience food markets , and vending machine operations, among others. Like entrepreneurs, franchisees invest their money and own their business but they don't have to develop a new product, create a new company, or test the market. In return, the franchisees give up some independence and pay franchisors anywhere from 1.5 to 12 percent of gross sales.

Most of the growth in franchising in recent years has come from business format franchising (versus product franchising) in which the franchisor rules nearly every aspect of the enterprise, from an outlet's appearance to worker training. However, holding a franchise or operating under franchise name apparently has no connection at all with chances of entrepreneurial survival.

Types of Franchise Systems

Type	Explanation
Territorial franchise	The franchise granted encompasses several counties or states. The holder of franchise assumes the responsibility for setting up and training individual franchisees within his territory and obtains an "override" on all sales in his territory.
Operating franchise	The individual independent franchisee who runs his own franchise. He deals either directly with the parent organization

	or with the territorial franchise holder.
Mobile franchise	A franchise that dispenses its product from a moving vehicle, which is either owned by the franchisee or leased from the franchisors. Examples include Country Store on Wheels and snap-On Tools.
Distributor ship	The franchisee takes title to various goods and further distributes them to sub franchisees. The distributor has exclusive coverage of a wide geographical area and acts as a supply house for the franchisees who carry the product.
Co-owner ship	The franchisor and franchisee share the investment and profits. An example is Denny's Restaurant.
Co-management	The franchisor controls the major part of the investment. The partner manager shares profits proportionately. Examples include Travel lodge and Holiday Inn the Hotel and motel business.
Leasing	The franchisor leases the land, buildings and equipment to franchisees. Leasing is used conjunction with other provisions.
Licensing	The franchisor licenses the franchisee to use his trademarks and business techniques. The franchisor either supplies the product or provides franchisees with a list of approved suppliers.
Manufacturing	The franchisor grants a franchise to manufacture its product through the use of specified materials and techniques. The franchise distributes the product, utilizing the franchisor's techniques. The method enables a national manufacturer to distribute regionally when distribution costs from central manufacturing facilities are prohibitive. One example is sealy.
Service	The franchisor describes patterns by which a franchisee supplies a professional service, as exemplified by employment agencies.

Rationale for Franchising Franchise system represent the extreme form of limiting the market, short of outright ownership. That is through the stipulations in the contracts they sign, the parties purposively subvert and circumscribe the market place existing between them. Schedules are set, programs are constructed, and commitments are made so that the end user can receive the beneficial outcome of the (it is hoped) synergistic efforts of the franchisor and franchisee. Thus in theory at least, the franchisee system provides substantial franchisee training, sales, service, and promotional and capital assistance so that overall system performance will be enhanced.

In addition, franchise systems facilitate the flow of critical market information between franchisors and franchisees so that consumer preferences, complaints, and purchasing intentions can more quickly be reflected in marketing and production planning. Routinizing information flows is also important when it is necessary to monitor compensation claims, such as those for warranty work. The long run mutual interest fostered by such routinization reduces incentives for exaggerated compensation claims, while the uniform accounting and reporting procedures and greater access to information permit effective monitoring of the entire franchise system.

Finally, the franchise system provides needed investment incentives by making substantial sales, service, and management assistance readily available to potential franchisees; by harmonizing interdependent investment decision making through realignments of business risks; and by mitigating opportunities for the exploitation of invested capital by free-rider franchisees.

The appeal of franchising is so high that some companies are converting existing administrated or vertically integrated systems to franchised (contractual) systems.

Modes of Operation All franchisees are expected to provide a continuing market for franchisor's product or service. The product or service offering is in theory, differentiated from those offered by conventional outlets by its consistent quantity and quality and its strong promotion. Through its market- and image- building promotional strategy, which is instituted at an early stage of a franchise system's development, a franchisor hopes to gain automatic and immediate acceptance from prospective franchisees and the public.

Franchisors provide both initial and continuous services to their franchisees. Initial services include Market survey and site selection, Facility design and layout,Lease negotiation advice ,Financing advice, Operating manuals,Management training programs,Franchisee employee training

While the amount of involvement with franchisees is usually high, a franchisor's provision of an initial service indicates nothing about the depth of its involvement.

Continuous services includes Field supervision, Merchandising and promotional, materials Management and employee retraining ,Quality inspection , National advertising, Centralized planning, Market data and guidance, Auditing and record keeping ,Management reports ,Group insurance plans

Almost all franchisors have a continuous program of field services. Field representatives visit the franchise outlet to aid the franchisee in every day operations, check the quality of product and service and monitor performance.

All franchisees are usually required to report monthly or semimonthly on key elements of their operations – weekly sales, local advertising, employee turnover, profits, and other financial and marketing information. This regular reporting is intended to facilitate the various financial, operating, and marketing control procedures.

Sources of Franchisor Revenue Sources of franchisor revenue include

1. **Initial franchise fees**. Many franchisors charge an initial fee to new franchisees. The fee is charged to cover the franchisor's expenses for site location, training , setting of operating controls, and other initial services as well as developmental costs in building the system. Initial fees tend to rise as a franchise becomes more successful.
2. **Royalty fees**. Franchisors charge a royalty fee or commission. The fee is usually based on the gross value of a franchisee's sales volume. Five percent of gross sales is the most common royalty agreement in franchising. Some franchisors require minimum payment per month. In certain cases the royalty rate decreases as sales volume increases, while in others the royalty fee is a flat rate regardless of the sales volume. Some franchisors collect a royalty on a unit of sales basis. For example, motel franchisors charge a fee per room; soft ice cream franchisors charge a fee for each gallon of mix sold to the franchisee; car wash equipment franchisors charge a fee per car washed.

3. **Advertising fees**. To achieve name recognition for their frachies, franchisors must advertise, and the funds for doing so are collected from the franchisees in the form of advertising fees. McDonald's spends over $0.5 Billion on advertising a year, and most of this funded by charging franchisees 4 percent of gross annual sales.
4. **Sales of products**. Some franchisors function as wholesales in that they supply franchisees with raw materials and finished products. Other franchisors manufacture their products; for example, a significant amount of Coca-cola's revenue is derived from the sale of its soft drink syrups to its franchised bottlers. In some cases, the franchise company sells the equipment needed by the franchisee.
5. **Rental and lease fees**. The franchise company often leases the building equipment, and fixtures used its outlets. Some franchise contracts involve an escalator clause that requires the franchisee to increase his lease payment as sales volume increases.
6. **License fees**. The franchisee sometimes is required to pay for the use and display of the franchisor's trademark. The license fee is used more in conjunction with industrial franchises, where a local manufacturer is licensed to use a particular patent or process.
7. **Management fees**. In a few cases, franchisees are charged fees for consulting services received from the franchisor, such as management reports and training.

Characteristics of Traditional and Vertical Marketing system

Characteristics	Type of channel			
	Traditional marketing system	Vertical Marketing System		
		Administrated	Contractual	Corporate
Amount of cooperation	**Little or non**	**Some to good**	**Fairly good to good**	**Complete**
Control maintained by	**None**	**Economic power and leadership**	**Contracts**	**Ownership by one company**
Examples	**Typical channel of "independents"**	**General Electric Miller Beer**	**McDonalds Holiday Inn Pizza Hut**	**Florham, shoes, Sherwin Williams paints**

The above table shows the characteristics of Traditional and Vertical Marketing system. It shows the cooperation and control in traditional marketing system and vertical marketing system.

HORIZONTAL MARKETING SYSTEM

Another channel development is the horizontal marketing system, in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know-how, production, or 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 separate company. Adler calls this as "symbiotic marketing".

MULTICHANNEL MARKETING SYSTEM

In the past many companies sold to a single market through a single channel. Today, with the proliferation of customer segments and channel possibilities, more companies have adapted multi channel marketing. Multichannel marketing occurs when a single firm uses to or more marketing channels to reach one or more customer segments. For example, Compaq sells its personal computers directly to corporate buyers as well as through mass electronics retailers, small computer specialist stores, and value– added resellers.

By adding more channels, companies can gain three important benefits. The first is increased market coverage – companies often add a channel to reach a customer segment that its current channels can't reach (e.g., adding rural agents to reach sparsely located farmer– customer). The second is lower channel cost companies may add a new channel to lower their cost of selling to an existing customer group(e.g., selling by phone rather than personally visiting small customers). The third is more customized selling – companies may add a channel whose selling features fit customers' requirements better(e.g., adding a technical sales force to sell more complex equipment).

The gains from adding new channel come at a price, however. New channels typically introduce conflict and control problems. Conflict occurs when two or more company channels end up competing for the same customers. Control problems occur to the extent that the new channels are more independent and make cooperation more difficult.

QUESTIONS

1. What is the fundamental difference between merchants and agents or brokers?
2. Describe the four types of marketing channels for consumer product? Give example of products that are distributed through each of these different channels
3. Describe the functions of marketing intermediaries. Why are these functions necessary?
4. Discuss the three different types of vertical marketing system?
5. Why cooperation among channel members is important?
6. What are the different channel conflicts? How would you resolve the channel conflict?
7. What is meant by distribution intensity? What are the various levels of distribution intensity?
8. Explain the different motivational program used in motivating the channel members.
9. Explain the systems used in evaluating the channel members
10. Explain the product, price and promotion issues in channel management

UNIT V

LESSON	1 E-ENABLED SELLING AND DISTRIBUTION

LESSON OUTLINE

- E-Enabled Selling and Distribution
- E distributor
- E broker
- E-Marketing
- E-Marketing Strategy
- Functions of E-marketing
- Need for An E-marketing Strategy
- Summary

LEARNING OBJECTIVES

After reading this lesson you should be able to:

- Understand the meaning and usefulness of e-enabled selling and distribution
- Understand the difference between e-distributor and e-broker
- Understand the importance of E-marketing
- Understand the main functions of E-marketing

A powerful force is driving the world towards converging commonalty and that force is technology. The Internet is an extremely important and new technology. Some companies have used Internet technology to shift the competition away from quality, features, service and price, making it harder for anyone in their industry to turn a profit. One of the biggest advantages of the Internet is the ability to link one activity with another and make real-time data widely available.

The access to global markets through Internet has changed the way; the business is conducted in recent years. No doubt, it has quadrupled marketing opportunities and enhanced business revenues of companies operating in e-business. Today's state of e-business technology and environment is even providing opportunities to identify prospects and customers, irrespective of geographical limits, for their products and services.

Marketers have been using electronic tools for many years but the use of Internet and other information technologies has created a flood of interesting and innovative ways to provide customer value.

According to Strauss, Ansary and Frost, "The internet and other technologies affect traditional marketing in three ways. First, they increase efficiency in established marketing functions, second the technology of e-marketing transforms many marketing strategies and finally, it has fundamentally changed consumer behaviour through a power shift from firms to mouse holders".[1]

E-Enabled Selling and Distribution

The two most important concerns of the marketers are : how to make the sales of their products and how to have an effective distribution process. These two functions are required to be efficient enough so as to make the consumers to have positive perception about their products and they should receive them conveniently.

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1. Strauss Judy, Ansary Adel El and Frost Raymond, "E-Marketing", Pearson Education Pte. Ltd., Delhi, 2003, p.XI.

As all products and services are not consumed at their point of production, hence, the manufacturers need some intermediaries to sell their products to the consumers. For making their selling and distribution functions e-enabled, the manufacturers develop some web-sites and promote them. Selling and distribution function of these firms are called to be e-enabled.

Some manufacturers link their websites to well known electronic directories or they use the directory service of intermediaries.

Many functions must be performed in moving products from producer to consumer regardless of which intermediary performs them. These intermediary sites are called electronic shopping malls or e-malls.

Online retailers normally hold inventory and perform the pick, pack and ship functions in response to a customer order contact with buyers.

The internet provides a new channel for making contact with buyers.

Electronic intermediaries can be classified into two categories:

i) E-distributors

ii) E-brokers

E-distributor: An e-distributor takes full responsibility for fulfilling orders and collecting payment.

E-Brokers

E-brokers are intermediaries that assist in the purchase negotiations without actually representing either buyers or sellers.

Initially, the main concern for electronic marketing involved securing technologies necessary to implement Internet – based marketing, such as powerful search capability and secure electronic payment. However, today the main concern of management is shifting to how to utilize the opportunity of internet – based marketing to enhance competitiveness in harmony with existing marketing channels. So we need to examine the use of the conceptually new electronic business models.

Another aspect of electronic marketing is whether it is more effective to use the Internet for global or regional marketing.

To appropriately understand the concepts of e-enabled selling and distribution functions, it is pertinent to firstly understand the concept of e-marketing as e-enabled selling and distribution functions are an integral part of e-marketing. All the functions of e-commerce, e-logistic and e-distribution etc. are parts of the e-marketing.

E-MARKETING

E-Marketing is still quite a controversial subject to talk about, since no one has so far succeeded to unify the various theories around it; however there is one thing upon which there is no doubt; that e-Marketing first appeared under the form of various techniques deployed by pioneer companies selling their products via the internet in the early 90's.

The frenzy around these new marketing techniques created by e-tailers and supported by the internet rapidly gave birth to a new dimension of what we knew as Marketing: the e-Marketing (electronic Marketing).

Finally, the customers have access to full and free data, and it is they who decide the time, the form and the amount of information they need.

According to Kotler and Keller, "E-marketing describes company efforts to inform buyers, communicate, promote, and sell its products and services over the Internet. The e-term is also used in terms such as e-finance, e-learning and e-service. But the e-will eventually be dropped when most business practices is online".[2]

According to Strauss, Ansary and Frost, "E-marketing is traditional marketing using information technology but with some twist".[3]

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2. Kotler Philip and Keller Kevin L., "Marketing Management", Pearson Education Pted. Ltd., Delhi, 2006, p.457.
3. Strauss Judy, Ansary Adel El and Frost Raymond, "E-Marketing", Pearson Education Pte. Ltd., Delhi, 2003, p.XI.

According to Srivastava, Holani and Bajpal, "E-marketing is not merely transforming traditional activities of commerce from non-electronic world to an electronic platform but it is bringing in radical changes in the overall marketing mix such as product, promotion, price and distribution".[4]

From the above discussion, it may be said that e-marketing is the sum of all activities a business conducts through the internet with the purpose of finding, attracting, winning and retaining customers.

E-MARKETING STRATEGY

The importance of developing an effective e-marketing strategy is indicated by Michael Porter (2001) who has said:

'The key question is not whether to deploy Internet technology- companies have no choice if they want to stay competitive – but how to deploy it'.

According to Strauss, Ansary and Frost, "E-marketing strategy is the design of marketing that capitalizes on the organisation's electronic or information technology capabilities to reach specified objectives. In essence, e-marketing strategy is where technology strategy and marketing strategy wed to form organisation's e-marketing strategy. Technology and its unique properties have given some new life to traditional enterprise and marketing strategies".[6]

From, the above discussion, it is clear that the e-marketing strategy can be expressed with the help of following equation.

E-marketing Strategy=Marketing Strategy + Information Technology

According to Kotler and Keller, "If a company does an e-mail campaign right, it can not only build customer relationships, but also reap additional profits. E-mail involves only a faction of the cost of a "d-mail" or direct mail campaign. E-marketing affects traditional marketing in two ways. First, it increases efficiency

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4. Srivastava Holani, Umesh and Bajpal Naval, "Internet Marketing", Marketing Mastermind, ICFAI Press, Hyderabad, March 2005, pp.27-28.
6. Strauss Judy, Ansary andel El and Frost Raymond, "E-marketing", Pearson Education Pted. Ltd., Delhi, 2003, p.4.

in traditional marketing functions. Second, the technology of e-marketing transforms many marketing strategies[7].

The e-marketing strategy is normally based and built upon the principles that govern the traditional, offline marketing, the well-known 4 P's (Product, Price, Promotion, Positioning) that form the classic marketing mix. Addition of the extra 3 P's (people, processes, proof) makes the whole extended marketing mix.

Until here, there are no much aspects to differentiate e-marketing from the traditional marketing performed offline: the extended marketing mix (4+3 P's) is build around the concept of "transactional" and its elements perform transactional functions defined by the exchange paradigm. What gives e-marketing its uniqueness is a series of specific functions, relational functions, i.e. personalization, privacy, customer service, community, site, security, sales promotion.

These 7 functions of the e-marketing stay at the base of any e-marketing strategy and they have a moderating character, unlike the classic marketing mix that comprises situational functions only.

1. Personalization

The fundamental concept of personalization as a part of the e-marketing mix lies in the need of recognizing and identifying a certain customer in order to establish relations (establishing relations is a fundamental objective of marketing). It is crucial to be able to identify customers on individual level and gather all possible information about them, with the purpose of knowing marketing and be able to develop customized, personalized products and services.

For example, a cookie strategically placed on the website visitor's computer can let the marketer know vital information concerning the access speed available: in consequence, if he knows the visitor is using a slow connection (eg. Dial-up)

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7. Kotler Philip and Keller Kevin L., "Marketing Management", Pearson Education Pte. Ltd., Delhi, 2006, p.458.

he will offer a low-volume variation of his website, with reduced graphic content and no multimedia or flash applications. This will ease his customer's experience on his website and he will be prevented from leaving the website on the reason that it takes too long to load its pages.

Personalization can be applied to any component of the marketing mix; therefore, it is a moderating function.

2. Privacy

Privacy is an element of the mix very much connected to the previous one i.e. personalization. When one gathers and stores information about marketers' existing and potential customers (therefore, when one performs, the personalization part of the e-marketing mix) a crucial issue arises: that of the way this information will be used, and by whom. A major task to do when implementing an e-marketing strategy is that of creating and developing a policy upon access procedures to the collected information.

This is a duty and a must for any conscious marketer to consider all aspects of privacy, as long as data are collected and stored, data about individual persons.Privacy is even more important when establishing the e-marketing mix since there are many regulations and legal aspects to be considered regarding collection and usage of such information.

3. Custom Service

Customer service is one of the necessary and required activities among the support functions needed in transactional situation.

We will connect the apparition of the customer service processes to the inclusion of the "time" parameter in transactions. When switching from a situational perspective to a relational one, and e-marketing is mostly based on a relational perspective, the marketer saw himself somehow forced into considering support and assistance on a non-temporal level, permanently, over time.

For these reasons, we should consider the Customer Service function (in its fullest and largest definition) as an essential one within the e-marketing mix. As we can easily figure out, the service (or assistance if you wish) can be performed upon any element from the classic 4 P's, hence its moderating character.

4. Community

We can all agree that e-marketing is conditioned by the existence of this impressive network that the internet is. The merely existence of such a network implies that individuals as well as groups will eventually interact. A group of entities that interact for a common purpose is what we call a "community" and we will soon see why it is of absolute importance to participate, to be part of a community.

The number of its components gives the value of a network; more exactly the value of a network equals the square of the number of components. We can apply this simple law to communities, since they are network: we will then conclude that the value of a community rises with the number of its members. This is the power of communities; this is why we have to be a part of it.

The customers/clients of a business can be seen as part of a community where they interact (either independent or influenced by the marketer). Therefore developing a community is a task to be performed by any business, even though it is not always seen as essential.

Interactions among members of such a community can address any of the other functions of e-marketing, so it can be placed next to other modernating functions.

5. Site

The e-marketing interactions take place on a digital media the Internet. But such interactions and relations also need a proper location, to be available at any moment and from any place? A digital location for digital interactions.

Such a location is what we call a “site”, which is the most widespread name for it. It is now the time to mention that the “website” is merely a form of a “site” and should not be mistaken or seen as synonyms. The “site” can take other forms too, such as a Palm Pilot or any other handheld device, for example.

This special location, accessible through all sort of digital technologies is moderating all other functions of the e-marketing? It is then a moderating function.

6. Security

The “security” function emerged as an essential function of e-marketing once transactions began to be performed through internet channels.

What we need to keep in mind, as marketers are the following two issues on security:

Security during transactions performed on our website, where we have to take all possible precautions that third parties will not be able to access any part of a developing transaction;

Security of data collected a stored, about our customers and visitors.

A honest marketer will have to consider these possible causes of further trouble and has to co-operate with the company’s IT department in order to be able to formulate convincing (and true, honest!) messages towards the customers that their personal details are protected from unauthorized eyes.

7. Sales Promotion

At least but not last, we have to consider sales promotions when we build an e-marketing strategy. Sales promotions widely used in traditional marketing as well, we all know this, and it is an excellent efficient strategy to achieve immediate sales goals in terms of volume.

This function counts on the marketer’s ability to think creatively: a lot of work and inspiration is required in order to find new possibility and new approaches for developing an efficient promotion plan.

On the other hand, the marketer needs to continuously keep up with the latest Internet technologies and applications so that he can fully exploit them.

To conclude, e-marketing implies new dimensions to be considered aside of those inherited from the traditional marketing. These dimensions revolve around the concept of relational functions and they are a must to be included in any e-marketing strategy in order for it to be efficient and deliver results.

NEED FOR AN E-MARKETING STRATEGY

An e-marketing strategy is needed to provide consistent direction for an organisation's e-marketing activities that integrates with its other marketing activities and supports the overall objectives of the business.

For many companies, the first forays into e-marketing or Internet marketing are not the result of a well-defined, integrated internet strategy; rather, they are a response to competitors activities or customers demand. After a site has been in existence for a year or so, marketing staff and senior managers in a company will naturally question its effectiveness. This is often the point at which the need for a coherent Internet marketing strategy becomes apparent. As a result, the starting point used in this summary of approaches to e-marketing strategy, is when a company that has an existing site and it is reviewing the current site and its effectiveness with a view to future improvements.

The Digital Revolution gets all the headlines these days. But turning slowly beneath the fast-forward turbulence, is a much more profound revolution – the Network Economy. This emerging new economy represents a tectonic upheaval in our commonwealth, a social shift that reorders our lives more than mere hardware or software even can. It ha its own distinct opportunities and its own new rules.

The advent of the new economy was first noticed as far back as 1969, when Peter Drucker perceived the arrival of knowledge workers. The new economy is often referred to as the Information Economy, because of information's superior role (rather than material resources or capital) in creating wealth.

Some prefer the term Network Economy, because *information* isn't enough to explain the discontinuities we see. We have been awash in a steadily increasing tide of information for the past century. Many successful knowledge businesses have been built on information capital, but only recently has a total reconfiguration itself shifted the whole economy.

The grand irony of our times is that the era of computers is over. All the major consequences of stand-alone computers have already taken place. Computers have speeded up our lives a bit, and that's it.

In contrast, all the most promising technologies making their debut now are chiefly due to communication between computers – that is, to connections rather than to computations. A since communication is the basis of culture; business needs to get the e-marketing act together.

The technology first invented to crunch spreadsheets has been hijacked to connect our isolated selves instead. Information's critical rearrangement is the widespread, relentless act of connecting everything to everything else. We are now engaged in a grand scheme to augment, amplify, enhance, and extend the relationships and communications between all beings and all objects. That is why the Network Economy is a big deal.

The new rules governing this global restructuring revolve around several axes. First, wealth in this new regime flows directly from innovation, not optimisation; that is, wealth is not gained by perfecting the known, but by imperfectly seizing the unknown. Second, the ideal environment for cultivating the unknown is to nurture the supreme agility and nimbleness of networks. Third, the domestication of the unknown inevitably means abandoning the highly successful known – undoing the perfected. And last, in the thickening web of the Network Economy, the cycle of “find, nurture, and destroy” happens faster and more intensely than ever before.

The network Economy is not the end of history. Given the rate of change, this economic arrangement may not endure more than a generation or two. Once networks have saturated every space in our lives, an entirely new set of rules will take hold. Take these principles, then, as rules of thumb for the interim.

SUMMARY

Marketers have been using electronic tools for many years but the use of Internet and other information technologies has created a flood of interesting and innovative ways to provide customer values.

The Internet is an extremely important and new technology. One of the biggest advantages of Internet is its ability to link one activity with another and make real time data widely available. Today’s state of e-business technology and environment is even providing opportunities to the marketers to identify prospects and customers-irrespective of geographical limits for their products and services.

Selling and distribution are the two important marketing functions and when internet and other information technology are used to perform these functions, it is called e-enabled selling and distribution. E-enabled selling and distributions functions are part of e-marketing.

E-marketing is still quite a controversial subject to talk about since no one has so far succeeded to unify the various theories around it. Due to adoption of the concept of e-marketing by many business companies, customers have access to full and free data. In some ways, e-marketing is traditional marketing which uses information technology with some twists. E-marketing has brought in radical changes in the overall marketing mix.

E-marketing is part of e-commerce or e-business. E-commerce is the umbrella term used for the entire spectrum of activities such as electronic data interchange; electronic payment systems order management, information exchange and other business applications' with electronic/ paperless documentation.

E-marketing is the sum of all activities a business conducts through the internet with the purpose of finding, attracting, winning and retaining customers.

E-marketing is undertaken by using internet and internet usage is increasing rapidly throughout the world but the rate of usage is much lower in underdeveloped countries in comparison to the developed countries.

E-marketing strategy affects traditional marketing in two ways. It enhances the efficiency in traditional marketing functions and the technology of e-marketing transforms many marketing strategies.

The marketing mix of e-marketing is an extended one. Instead of the four components in the traditional marketing mix (product, price, place and promotion), e-marketing has seven components with the addition of people, process and proof to the four components of the traditional marketing mix.

IMPORTANT QUESTIONS

1. What do you understand by the term 'E-enabled Selling and Distribution?'
2. Distinguish between an e-broker and e-distributor.
3. What is e-marketing? Discuss with the help of some suitable examples.
4. Discuss the importance of e-marketing. Elaborate on the size of e-marketing in the various countries of the world.
5. Discuss the use of e-marketing for e-selling and e-distribution.
6. Discuss the various e-marketing strategies.
7. Discuss the various functions performed by e-marketing.
8. Discuss the salient features of e-marketing.
9. How e-enabled selling and distribution functions are different from the traditional selling and distribution functions?
10. Write an elaborated note on the need for e-marketing.

UNIT V

LESSON	2 E-COMMERCE AND E-RETAILING AS A CHANNEL OF DISTRIBUTION

LESSON OUTLINE

- E commerce
- Size of E-market
- Development of E-commerce
- E-commerce as a channel of distribution
- Highlights of e-retailing
- Feature of e-retailing
- Online retailers
- Online retailing
- Digital products
- Tangible products
- E-retailing as a channel of distribution
- Summary

LEARNING OBJECTIVES

After reading this lesson you should be able to:

- Understand the meaning of e-commerce and the size of e-market
- Understand about the development of E-commerce with regard to various geographical areas.
- Learn about the features of e-commerce as a channel of distribution.
- Understand the meaning of e-retailing, online retailing and online retail
- Know about the features of the e-retailing as a channel of distribution

The term e-commerce describes a variety of electronic platforms, such as the sending of purchase orders to suppliers via electronic data interchange (ED), the use of fax and e-mail to conduct transactions, the use of ATMs, EFT-POS, and smart cards to facilitate payment and obtain digital cash; and the use of the Internet and on-line services. All of these involve doing business in a "market's pace" as compared to a physical "market place".

E-COMMERCE

The cutting edge of business today is electronic commerce (e-Commerce). Broadly, defined, electronic commerce is modern business methodology that addresses the needs of organizations, merchants and consumers to cut cost while improving the quality of goods and services. The term also applies the use of computer networks to search and retrieve information in support of human and corporate decision-making. There is a range of e-Commerce opportunities that depend on the nature of the business and the customers it serves.

E-Commerce is also referred to as online transactions i.e. goods and services are sold through internet, either in one transaction or over time with an ongoing subscription price.

According to Ramaswamy and Namakumari, "E-commerce involves the exchange of products, services, information and payment through the electronic medium of computers/networks. E-commerce means business done on line. E-commerce is the umbrella term used for the entire spectrum of activities such as electronic data inter-change (EDI), electronic payment systems, order management, information exchange and other business applications, with electronic/paperless documentation".[1]

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1. Ramaswamy V.S. and Namakumari S., "Marketing Management". Macmillan India Ltd., New Delhi, 2002, p.458.

SIZE OF E-MARKET

Internet usage varies from country to country and is growing rapidly. It is creating opportunities and challenges for e-marketers to target and operate in countries that are less developed. Some of the most recent researches indicate the continuing rapid global growth of Internet connection and e-business generation.

According to the Internet audience measurement service, Nielsen/Net Ratings, a total of 498 million people had Internet access in their home by the end of 2001. The analysis showed that 24 million people gained Internet access from home during the last quarter of 2001.

Table 2.1 below depicts the percentage of households with Internet access

Table 2.1:Percentage of Households with Internet Access

Country	Percentage households with internet access via home PC	Connection rate %	Country	Percentage households with internet access via home PC	Connection rate %
Argentina	20	55	Italy	34	80
Australia	51	77	Mexico	14	56
Austria	38	70	Netherlands	52	82
Belgium Luxembourg	32	68	New Zealand	52	84
Brazil	21	77	Norway	47	78
Denmark	51	82	Singapore	60	89
Finland	42	81	South Africa	17	59
France	20	53	South Korea	58	83
Germany	35	72	Spain	18	48
Hong Kong	56	90	Sweden	57	87
Ireland	34	76	Switzerland	43	78
India	07	66	Taiwan	50	83

Israel	35	61	UK	38	78

Source: Nielsen/NetRatings (2002).

From the above table it is noticed that the access to internet varies with the overall level of economic development of a country and it is higher for highly developed countries and goes down with the lowering of the level of development of the country. India has a very low-rate of access to Internet.

Despite the lower expectations that followed the burst of the dot com bubble, e-retailing continues to grow at a rapid rate. By 2004, worldwide Business to Consumer (B2C) e-commerce revenues had reached US $428 billion, up from just $60 billion in 2000.

As with any technology shift, adoption rates differ by region. E-retailing is quickly growing in Western Europe, Japan and North and South America.

Global markets will develop in varied ways, sometimes using PC-based access to the Web, sometimes through mobile devices or kiosks, sometimes with credit cards, other times with cash or prepaid stored value cards. Also the e-payment software enables many styles of e-retailing around the world. In most parts of the world, there continues to be ample evidence that e-retailing is alive and well. A rapidly growing number of consumers are online and while there, many are shopping and buying. Even so, the sentiment surrounding e-retailing has gone from one of all blue skies and unlimited possibility to one that may more accurately reflect the business realities of e-retailers' future. E-retailing has become an accepted mode of retailing – albeit one that will ultimately capture a very small share of total retail sales – in most part of the developed world. The current mode of thinking certainly reflects a more tempered outlook.

One of the most important lessons of a "post Internet euphoria" world is that technologies afforded by the Internet only work for good merchants. Furthermore, the outlandish outlays and unrealistic business models of the Internet's early years have given way to business plans with more prudent cost controls and rationalized go to- market strategies.

In many ways, the United States has the most developed e-retailing landscape. That is not to say, however, that it is mature. The landscape continues to evolve, in large part, as a result of the new economic realities epitomizing the industry, as well as because of e-retailers' desires to differentiate themselves from competitors. So, as the rest of the world watches the US e-retailing landscape unfold, US-based retailers wait to see what lessons other countries' unique paths of development have to offer.

In reviewing the current state of e-retailing across the globe, a number of themes materialize:

- E-commerce, including e-retailing, is growing rapidly worldwide. Worldwide e-commerce revenues are escalating year by year. By 2004, worldwide B2C e-commerce revenues reached $428 billion, up from $60 billion in 2000.
- Internet-based commerce will not look the same from country to country, especially in terms of mode of access. For example, in the U.S. and Canada, it seems that PC-Internet access is likely to be the preferred mode; in places like Northern Europe, wireless is an important technology; and in some countries such as the UK, interactive TV may develop into a force to be reckoned with.
- As on land, there is only room for a few retailers online to operate profitably in each merchandise category. Shakeout is likely to continue to occur among players as each market develops. Already, rationalization of e-retailers is occurring around the globe in the form of a spate of acquisitions and business failures.
- Telecommunications costs are likely to continue to fall as competition increases and government/consumer pressures mount. Lower costs of telecommunications will likely improve the level of online penetration and/or the frequency and length of online visits.

- Similarly, the development of e-commerce will force countries in Europe to further deregulate their retail markets. This is already beginning to occur in Germany relative to its prohibitive promotional regulations.
- Despite growing Internet access, a digital divide remains. In many areas of the world, poverty will prevent a sizable share of the population from gaining Internet access for the foreseeable future. Computers in workplaces will allow some people to access the Internet who might not otherwise have the means. Yet, a rift will continue to exist between the world's technology-haves versus its technology have-nots. The Internet has not yet become the great equalizer many touted it would, but another medium used by people with education and money.
- Diversity will grow on the Internet. Countries that are minor global players today will narrow the gap going forward. The dominance of the English language on the Internet will become less pronounced. For example, China is one of the world's fastest growing Internet markets. The number of Internet users in China grew by 73% from June 2001 to June 2002, according to the China Internet Network Information Center. In total, the country's Internet users number nearly 46 million. The number of Web sites in China grew by 21% in the same period, to over 293,000.
- Bricks-and-clicks players and alliances will play a major role in e-commerce. The collapse of the dot-com bubble in the US has proved what few predicted at the start of the Internet E-commerce will remain largely in the hands of established retailers. Multi-channel players are already well-known entities, creating a higher level of trust and a lower need for advertising and marketing expenditures, compared to pure-play retailers. A land-store presence allows customers an additional venue to shop, to pay, and to pick up merchandise. In the US, a substantial portion

of e-commerce growth worldwide can be attributed to cataloguers actively encouraging their customers to use the Web, rather than dialing into a call center or mailing an order form, as an order-entry mechanism.

- E-retailers will stimulate further development of value-oriented retailing in many regions of the world. Online retailers are offering bargain-basement prices to build their customer bases, often combined with generous shipping and handling promotions. And, pricing across retailers will become more transparent as consumers can check prices online quickly and easily. Shopping comparison sites are providing assistance in this area as well.
- Each region's market forces will create an idiosyncratic path of development.
- Change comes quickly. High-profile players can vanish overnight. Technologies that seem advanced now will soon be eclipsed by competitors' new developments. And, there will continue to be tremendous momentum from consumers, businesses, and governments to boost the economy through ongoing e-business progress.

Development of E-Commerce

E-commerce development varies widely by geography. For example Western Europe can be segmented into three regions: North (the Scandinavian countries of Denmark, Finland, Norway, and Sweden), Central (including France, Germany, the United Kingdom, among other countries), and the South (Greece, Italy, Spain and Portugal). The countries in the north are by far the most advanced in terms of Internet development; the countries in the south, the least developed, with the countries in central Western Europe generally falling somewhere in between in terms of Internet development and sophistication.

The northern region of Western Europe, Scandinavia, has the highest Internet penetration rates in the world. One of the contributors to the area's high rates of Internet access is the area's cold climate, which encourages indoor activity. Furthermore, mobile technologies, including mobile Internet access, are relatively widespread in the region, given that Finland and Sweden are home to mobile phone giants Nokia and Ericsson, respectively. Finally, much of the area's population is fluent in English, the predominant language of today's Web.

Overall, Western Europe has advantages over other regions of the world in that it has a standard mobile technology and a common currency that brings better competition, price transparency and improved deals for consumers. Conversely, the widespread presence of "narrowband" connections discourages consumers from browsing e-retailing sites for extended periods of time.

E-retailing in Western Europe is following much the same developmental path as it did in the US – but with a time lag that is perhaps 12- to 18-months long. Rationalization is occurring as stronger players consolidate through mergers and acquisitions and weaker players cease operations altogether, while multi-channel retailing is becoming the preferred go-to-market strategy.

E-Commerce as a Channel of Distribution

E-commerce channels of distribution are of two types:

1. **Commercial channels**: In this the various companies have set up on-line information and marketing services that can be accessed by those who have signed up for the service and pay a monthly fee. These channels provide information (news, libraries, education, travel, sports, reference), entertainment like fun & games, shopping services, dialogue opportunities and e-mail etc.
2. **The internet**: The internet is a global web of computer networks that has made instantaneous and decentralized global communication possible. Internet usage has surged with the recent development of the user friendly world wide web and web browser software such as netscope

navigator and micro soft internet explorer. Users can surf the internet and experience fully integrated text, graphics, images and sound. Users can send e-mail, exchange views, shop for products, and access news, recipes, art and business information. The internet itself is free, though individual users need to pay an internet service provider to be hooked to it.

Features of E-commerce as a channel of distribution:

- It allows to sell to a geographically disperse market.
- It makes the firms able to target and focus on specific segments.
- It has relatively low set-up costs.
- It makes possible the use of e-commerce technology (for payment, shopping software, etc).
- It brings in a paradigm shift in commerce and consumption.

E-RETAILING

E-retailing means using of interactive computer technology to present a sales message and consummate the sale. E-retailing includes all the activities involved in selling goods or services directly to final consumers for personal, non-business use. E-retailer or retail store is any business enterprise whose sales volume comes primarily from e-retailing.

E-retailers need to consider the following issues in developing a business model:

- **Product/content issues**: what kind of products are suited for online retailing?
- **Software interface issues**: what kind of features will constitute an effective interface? What features make it easy to find and select items for online purchase?

- **Process issues**: What are the specific steps in the shopping process for, a consumer's perspective? What kind of processes should companies develop to fulfill orders efficiently?
- **Pricing issues**: How much will consumers be willing to pay for convenience?
- **Payment issues**: What payment methods would consumers use for online purchases?
- **Market penetration issues**: Would an online channel be popular with consumers? How long will such a system take to attract a critical mass and become profitable?

Highlights of E-retail

- A complete package to suit the businesses' entire sales related requirements such as order, purchase, payment, delivery, customer service, returns and replacements.
- Good prices and continuous stock availability. Immediate pre-sales information on product quality, prices etc. Satisfying the buyer's curiosity about the product.
- Provides knowledge about the psychological needs, motives and choices of the customers.

Features of E-retail

E-retail facilitates :

- Electronic interface between retailer and manufacturer.
- Customer interaction and personalization.
- Order processing and order tracking.
- Shopper self service option.
- Product management.
- Service integration (payment systems, tax and shipping).
- Post-sales customer service.

- Inventory management.

ONLINE RETAILERS

Online retailers are business firms that buy products and resell them online. Here the consumers can access pictures of products, read the specs, shop among online retailers for the best prices and terms, and click to order and pay. Business-to-business purchasing is growing fast on the internet. Purchasing agents can use book-marked websites to shop for routine items. Personal selling can increasingly be conducted electronically, with buyer and seller seeing each other on their computer screens in real time.

Underlying electronic business undergoes two phenomena

a) digitization and

b) connectivity.

a) Digitization consists of converting text, data, sound and image into a stream of "bits" that can be dispatched at incredible speed from one location to another.

b) Connectivity involves building networks and expresses that fact that much of the world's business is carried over networks connecting people and companies. These networks are intranets when they connect people within a company, extranets when they connect a company with its suppliers and customers, and the internet when they connect users to an amazingly large "information highway".

ONLINE RETAILING

Online retailing is one of the most visible e-business models. Merchants set up online storefronts and sell to businesses and/or consumers. Digital goods may be delivered directly over the Internet while physical goods are shipped via logistics provider such as UPS, USPS, or FedEx. Firms selling physical goods online can make any level of commitment from pure play to barely dabbling. Well-known electronic storefronts include CDNOW (www.cdnow.com) and Dell Computer (www.dell.com).

While a pre-Internet presence carries brand equity, it does not guarantee online success. Often the pure plays are free from the cultural constraints of the established businesses and can innovate more quickly in response to customer needs. Now some internet pure plays are establishing brick-and-mortar operations to enhance branding through additional exposure and an additional channel for customers to experience their products.

DIGITAL PRODUCTS

One great hope for the internet is to serve as a medium for the physical distribution of goods and services. Although great strides are being made, there is still a way to go. Yet, as mentioned earlier, content that can be digitized can be transmitted over the internet. The New York Times (www.nytimes.com) digitally distributes an online version of its newspaper, thousands of radio stations broadcast live programming over the internet; software has a long history of online distribution. Clearly, distribution costs are significantly lower for digital products, compared with physical distribution.

TANGIBLE PRODUCTS

Many products sold online are still distributed through conventional channels. For example, most major record labels will not allow their music to be distributed online.

The Internet consumer may make the purchase online but the physical product will arrive via the any physical channel like postal service, courier, transport etc. or through some other carrier. This type of distribution is relatively inefficient.

Furthermore, local regulations sometimes impede the direct distribution of product. For example, Wine.com (the former Virtual Vineyards at www.wine.com), a wine distributor, has been forced by some state regulations to operate through local intermediaries – which lengthens its distribution channel.

Features of E-retailing as a channel of distribution

- Much stronger personal relationship with the consumer.
- Hold a variety of products.
- Offer consumers credit.
- Promote and merchandise products.
- Price the final product.

SUMMARY

E-commerce or E-business means business done by using internet technologies to perform the key business processes. Assess to internet various geographical locations of the world. It directly varies with the overall level of economic development of a country and it is higher for highly developed countries and goes down with lowering of the development of the country. India has a very low rate of access to internet.

E-commerce channels of distribution are of two types viz. : commercial channels and the internet. Various companies set up their own online information and marketing services that can be accessed by those who have signed up for the services and pay a monthly fee. The internet is a global web of computer internet that has made instantaneous and decentralize global communication possible.

E-commerce as a channel of distribution enables the companies to sell to a geographically disperse markets, allows specific segment at a relatively low cost.

E-retailing includes all the activities involved in selling goods or services directly to final consumers for personal, non-business use. E-retailer is any business entrepreneur whose sales volume comes primarily from e-retailing.

E-retail facilitates electronic interface between retailers and manufacturers, order processing and tracking, product management, post sales customer service and inventory management.

Online retailers are business firms that buy products and resell them online. Personal selling can be conducted electronically with buyers and sellers where they can see each other on their computer screen in real time. Online retailing is one of the most visible e-business models. Merchants setup online store fronts and sell to business and or consumers.

E-retailing as a channel of distribution helps in developing stronger relationship between the buyer and retailer, promotes and merchandise products, price the final product and build the retailers brand in the high esteem.

IMPORTANT QUESTIONS

1. What is e-commerce? What are its basic benefits to the consumers.
2. Discuss the size of e-market w.r.t various countries of the globe. Explain the reasons for the varying rate of number of households with internet access.
3. Discuss the development of e-commerce.
4. Discuss the salient features of e-commerce as a channel of distribution.
5. What is e-retailing? Discuss the various issues retailing to it.
6. Discuss the various features of e-retail.
7. Discuss the terms ‘online retailer and online retailing’.
8. Distinguish the salient features of digital products and tangible products. Differentiate between the two.
9. Briefly discuss the various salient features of e-retailing as a channel of distribution.
10. Discuss the future of e-commerce and e-retailing.

UNIT V

LESSON	3 ELECTRONIC INTERMEDIARIES

LESSON OUTLINE

- Intermediaries
- Types of Intermediaries
- Distribution channels
- Intermediaries models
- Electronic Marketing Structure
- Brokerase model
- Online Exchange
- Online Auction
- Agent Models
- Matamediary

LEARNING OBJECTIVES

After reading this lesson you should be able to:

- Know about the various types of intermediaries
- Understand the importance of distribution channel length and functions
- Understand the meaning and the types of the agent models
- Understand the meaning and functions of matamediaries

In the present era of fastly taking technological advancements, the business competition for most of the product categories is becoming very hard. Out of the four components of the marketing mix, distribution is considered the most important because it determines how the customer actually receives a product or service. A customer's experience about how to gain access to the product often bears an impact about the brand image. The manufacturers now want to maintain complete control of the distribution. So if the customers buy directly from the manufactures, it helps the companies to set up strategies for availability, access, and distribution service. For most part of the firms' total distribution functions, intermediaries play a very important role.

Intermediaries

Intermediaries are one or more individuals or firms which perform some of the distribution functions for the sellers or the buyers in order to enable the actual sales/exchanges to take place. These intermediaries are called distribution channels.

Types of Intermediaries

Channel intermediaries include wholesalers, retailers, brokers, and agents.

- **Wholesalers** buy products from the manufacturer and resell them to retailers. Both brick-and-mortar and online retailers (sometimes called e-tailers) buy products from wholesalers and sell them to consumers.
- **Brokers** facilitate transactions between buyers and sellers without representing either party. They are market makers and typically do not take title to the goods.
- **Agents** usually represent either the buyer or seller, depending upon who hires and pays them. They facilitate transactions between buyers and sellers but do not take title to the goods. **Manufacturer's agents** represent the seller whereas **purchasing agents** represent the buyer.

For some digital products, such as software, the entire distribution channel may be internet based. When a consumer buys software online, the supplier often delivers it over the internet to the buyer's computer. In most cases, however, only some of the firms in the channel are wholly or partially Web enabled. For example, non-digital products such as flowers and wine may be purchased online but must be delivered via truck. Nonetheless, the exact location of that shipment can be tracked using a web-based interface (the informational role of distribution). Intermediaries are everywhere. In fact, these days, the Web seems to be a constant ebb and flow of aggregators.

Distribution Channel

A **distribution channel** is a group of interdependent firms that work together to transfer product and information from the supplier to the consumer. It is composed of the following participants:

- **Producers**, manufacturers, or originators of the product or service,
- **Intermediaries** – the firms that match buyers and sellers and mediate the transactions among them; and
- **Consumers,** customers, or buyers who consume or use the product or service.

Each channel member performs some of the marketing functions needed to get the product from the point of origin to the point of consumption. In addition to matching buyers and sellers, intermediaries exist in the channel to perform some of these functions perhaps more effectively and efficiently than other channel participants. Some benefits of intermediaries include mediating transactions between parties, as well as providing cost savings in the form of lowered search, monetary, transaction, and energy costs.

The structure of the distribution channel can either make or impede possible opportunities for marketing on the internet. For example, when a consumer purchases online, he must perform the search function himself, and if the transaction is automated he could save money by performing some distribution functions himself. Four major elements combine to form a company's channel structure.

1. Types of channel intermediaries.

2. Length of the channel.
3. Functions performed by members of the channel.
4. Physical and informational systems that link the channel members and provide for coordination and management of their collective effort to deliver the product or service.

Distribution Channel Length

The length of a distribution channel refers to the number of intermediaries between the supplier and the consumer. The shortest distribution channel has no intermediaries – the manufacture, deals directly with the consumer, the way Dell Computer sells directly to consumers. This is known as a **direct-distribution channel**. Most distribution channels incorporate one or more intermediaries in an **indirect channel**. A typical indirect channel includes suppliers, a manufacturer, wholesalers, retailer, and end consumers. Intermediaries help to perform the following important functions.

Functions of a Distribution Channel

Many functions must be performed in moving products from producer to consumer, regardless of which intermediary performs them. One important property of internet is market deconstruction – removing distribution channel functions from the players that normally perform them, and reconstruction – reallocating those functions to other intermediaries in novel ways. For example, online retailer normally hold inventory and performs the pick, pack, and ship functions in response to a customer order. In an alternative scenario, the retailer might outsource the pick, pack and ship functions to a logistics provider. Distributors perform many value-added functions.

The internet channel adds value to the contact process in several ways. First contact can be customized to the buyer's needs. For example, the Honda site (www.honda.com) allows customers to find a dealer in their area where they can buy Honda vehicles. Second, the internet provides a wide range of referral sources such as search engines, shopping agents, newsgroups, chat rooms, e-mail, webpages and affiliate programs. Third, the internet is always open for business, 24 hours a day, seven days a week.

Intermediary Models

Mainly the following three intermediary models are commonly used on the Internet:

1. Brokerage models,
2. Online retailing,
3. Online auction and
4. Agent models.

1. Brokerage Models

The broker creates a market in which buyers and sellers negotiate and complete transactions. Brokers typically charge the seller and/or buyer a transaction fee, but they don't represent either party for providing exchange and negotiation services. Some brokers also charge listing fees. Brokers provide many value-added services to help attract customers and facilitate transactions. Brokerage models operate Web site exchanges in Business to Business (B2B), Business to Consumer (B2C), and Consumer to Consumer (C2C) markets.

The primary benefits of brokerage models to the buyer are convenience, speed of order execution and transaction processing. Cost savings to the buyer come in the form of lower prices, decreased search time, and savings of energy and frustration in locating the appropriate seller. The primary benefit to the seller is the creation of a pool of interested buyers. Cost savings to the seller come in the form of lowered customer acquisition costs and transaction costs.

2. Online Retailing

A host of online brokerages allow customers to place trades from their computers without phoning or visiting a broker. These brokerages pass along the cost savings to the buyer in the form of lower transaction fees. They also provide the benefits of executing trades very quickly, providing reference resources, and allowing for program trading. Some newer services catering to day traders bypass the Web entirely and connect traders straight to the market.

Carpoint.msn.com, and many other online brokers allow customers to receive bids from qualified dealers on vehicles available in their area without first phoning or visiting the dealer. The dealers offer a no-hassle price quote through the service. Thus, the customer avoids the potentially unpleasant task of negotiating price with a dealer.

The model is very similar to a stock exchange. Customers contact a coverage trader on the floor of the exchange with their request (e.g., an order for 100,000 transistors). The trader locates a supplier, completes the purchase, and pockets the spread between the buy and sell price. Additional revenue comes from other fixed feeds. The exchange is anonymous: Suppliers ship to an Converge quality control warehouse where the goods are inspected and then forwarded to the buyer. Converge guarantees the quality of the products and has a no-questions-asked return policy. Converge online services include personal buy-and-sell portfolios, chatlike communication with traders, and multiple methods for issuing requests including uploading a list of items or searching for items individually.

3. Online Auction

Auction are challenging the fixing price model, which has been the norm for the last 100 years. Auctions are available in the B2B, B2C, and C2C markets. While some merchants choose to host their own auctions, many more auction their surplus through auction brokers. When merchants auction items on their own Web sites, they become direct sellers using dynamic pricing. Third-party auctioneers are broker intermediaries.

Sellers benefit by obtaining the market price for goods and unloading surplus inventory. Buyers benefit by obtaining a good deal and, in many cases, enjoying the support of the auction. Although buyers can use services to automatically proxy bid buyer, studies show that many repeatedly visit auction sites to check on bids.

4. Agent Models

Unlike brokers, agents do represent either the buyer or the seller depending on who pays their fee. In some cases they are legally obligated to represent the interests of the party that hires them. In the brick-and-mortar world, real estate agents who are hired to list a property must represent the interests of the seller.

Agent models are of the two types:

a. Agent Models Representing Buyers

b. Agent Models Representing Sellers

a. Agent Models Representing Buyers

Purchasing agents represents buyers. In traditional marketing, they often forge long-term relationships with one or more firms; however, on the internet they represent any number of buyers, anonymously in many cases. Shopping agents and reverse auctions help individual buyers obtain the prices they want, while buyer cooperatives pool buyers for larger volume buys and, thus, lower prices.

b. Agent Models Representing Sellers

Selling agents, manufacturer's agents, metamediaries, and virtual malls are all agents that represent the seller.

Selling Agent: Selling agents represent a single firm, helping it sell its product; these agents normally work for a commission. For example, affiliate programs pay commissions to Web site owners for customer referrals. Normally the referral must result in a sale in order to qualify for the commission. Some affiliates demand a share of the lifetime value of the customer as opposed to just a piece of the first sale.

Manufacturer's Agent: Manufacturer's agents represent more than one seller. In traditional marketing, they generally represent only firms that sell complementary products to avoid conflicts of interest, but in the virtual world they often create Web sites to help an entire industry sell its products. In e-marketing, manufacturer's agents are often called seller aggregators because they represent many sellers on one Web site.

Almost all of the travel reservation Web sites qualify as manufacturer's agents since their commissions are paid by the airlines and hotels they represent. In some cases the traveler can get a better deal online but often the greatest benefit is simply convenience.

In the B2B market manufacturer's agents are often called catalog aggregators. Each of the sellers these firms represent generally has a broad catalog of product offerings. Picture a purchasing manager in a small room surrounded by hundreds of catalogs – this suggests the origin of the term. The challenge for the aggregator is to gather the information from all of these catalogs into a database for presentation on the Web site. Normally the catalog aggregator offers software that seamlessly interfaces with the suppliers' internal database systems. The task is made significantly easier when the suppliers use industry standard software such as Arriba, CommerceOne, Concur, or Alliance to manage their catalogs. Furthermore the catalogs must be constantly maintained as product availability and prices change.

The more advanced manufacturer's agents support catalog customization and integration with the buyer's enterprise resource planning (ERP) systems. The customized catalogs display prenegotiated product offerings and prices. Some will even maintain spending limits for particular employees and automatically forward big-ticket orders to the appropriate officer for approval. Additional services include recommending substitutions, notifying buyers of production lead times, processing orders, and tracking orders.

With this model, the buyer gains substantial benefits, including shorter order cycles, reduced inventories, and increased control. Order processing costs are lowered through paperless transactions, automated request for proposal (RFP) and request for quote (RFQ), and integration with ERP systems.

Matamediary: An agent that represents a cluster of manufacturers, e-tailers, and content providers organized around a live event or major asset purchase is called a matamediary.

Matamediaries solve four major consumer problems :

- Reducing search times,
- Providing quality assurance about vendors,
- Facilitating transactions for a group of related purchases, and
- Providing relevant and unbiased content information about the purchase.

Matamediary business partners benefit by having traffic directed to their sites as well as cobranding with the matamediary.

Matamediaries receive commissions for referrals. Sometimes commissions are contingent on a completed transaction. The key to a matamediary's success is consumer trust. Therefore, these sites must carefully select the sellers they will represent. Some matamediaries avoid accepting ads so their recommendations will not be perceived as tainted.

SUMMARY

Intermediaries are one or more individuals firms which perform the some of the distribution functions for the seller or buyers in order to enable the actual sale/exchanges to take place. The intermediaries are also called distribution channels.

Three main intermediary models which are in common use on the internet are brokerage models, agent models and online retailing.

The broker creates a market in which buyers and sellers negotiate and complete transactions. Brokers typically charge the seller and/or buyer a transaction fee, but they don't represent either party for providing exchange and negotiation services.

A host of online brokerages allow customers to place trades from their computers without phoning or visiting a broker. These brokerages pass along the cost savings to the buyers in the form of lower transactions fees. They also provide the benefits of executing trades very quickly, providing references resources, and allowing for programme trading.

Unlike brokers, agents do represent either the buyer or the seller depending on who pays their fee. In some cases they are legally obligated to represent the interests of the party that hires them.

Selling agents represent a single firm, helping it sell its product; these agents normally work for a commission. For example, affiliate programs pay commissions to Web site owners for customer referrals. Normally the referral must result in a sale in order to qualify for the commission.

Manufacturer's agents represent more than one seller. In traditional marketing, they generally represent only firms that sell complementary products to avoid conflicts of interest, but in the virtual world they often create Web sites to help an entire industry sell its products. In e-marketing, manufacturer's agents are often called seller aggregators because they represent many sellers on one Web site.

An agent that represents a cluster of manufacturers, e-tailers, and content providers organized around a event or major asset purchase is called a matamediary. Matamediaries solve four major consumer problems – reducing search times, providing quality assurance about vendors, facilitating transactions for a group of related purchases, and providing relevant and unbiased content information about the purchase.

Matamediary business partners benefits by having traffic directed to their sites as well as cobranding with the matamediary. Matamediaries receive commission for referrals.

IMPORTANT QUESTIONS:

1. What do you understand by the term intermediaries? Discuss its various types.
2. What is a distribution channel? Discuss its various functions.
3. Discuss the various intermediaries models.
4. Discuss the various benefits of online exchange. How it works?
5. What do you understand by the term matamediary? Discuss its uses to manufacturers?
6. Distinguish between selling agent and manufacturers agent.
7. What is online selling?
8. What are the various types of agent models? Discuss the benefits of each.
9. Discuss the various benefits of online auctions.
10. Discuss the future and scope of e-intermediaries in India.

UNIT V

LESSON	4 DISINTERMEDIATION AND REINTERMEDIATION

LESSON OUTLINE

- Disintermediation
- Reintermediation
- Extent of disintermediation
- Source of disintermediation
- Perceived motivation for disintermediation
- Involvement of the retailer in disintermediation
- Benefits of disintermediation to the retailer
- Presence of reintermediation
- Limiting factors of disintermediation / reintermediation
- Summary

LEARNING OBJECTIVES

After reading this lesson you should be able to:

- Understand the meaning and usefulness of disintermediation and reintermediation
- Understand about the various salient features of disintermediation like its extent, sources, perceived motivation, involvement of retailer, benefits to retailer, presence of reintermediation and limiting factors for disintermediation and reintermediation
- Understand the extent of use of disintermediation and reintermediation

The hallmark of revolutionary technical change in the marketplace, such as with the emergence of the Internet, is the destruction of traditional business practices. Managers are forced to "cannibalize" their own profitable businesses only to see a diminished return on investment. If they don't, a competitor will do it for them.

One aspect of the Internet, that has received much attention, is the web's ability to close the gap between buyer and seller, thereby reducing or even completely eliminating layers of middlemen or intermediaries in the distribution channel.

The Internet is having an impact on businesses in various industries in good and bad ways. Sometimes, it is not clear if specific impacts are good or bad, and sometimes it very much depends on the perspective taken.

For those in the middle, the notion of "disintermediation" is surely an unwelcome turn of events. Since the process of disintermediation is usually not instantaneous, managers find themselves caught in the uncomfortable position of needing to placate business partners in the distribution channel while taking steps toward the eventual demise of these relationships.

In their quest to meet the needs of demanding customers, companies have restructured, reorganized, and reengineered to increase organizational effectiveness and better satisfy key customers. The goal may be to build the very best supply chain team possible, which sometimes requires that old channel members be eliminated or replaced by new players. Thus, disintermediation / reintermediation can be important issues while designing a world-class supply chain. Further, the emergence of new technologies in an intensely competitive global marketplace has led many companies to explore opportunities to improve their relationship with their customers. These companies recognize that a key to long-term success is to have direct access to the consumers of their products.

Some times, the new linkage to the customer is more tangible and comes from the elimination of the retailer. The producer of the product may use web technologies to go directly to the consumer. For example, Stephen King by-passed his traditional publisher by posting his book, “The Plant” directly to the web. Readers simply pay a dollar per chapter and download it when it is posted. Many companies in diverse industries from music to power tools to food packaged goods to medical equipment have begun serious exploration to see if similar disintermediation opportunities might exist in their channels. It is possible that parallel channels—the traditional manufacturer-retailer-consumer channel and the manufacturer-direct-to-customer channel—will emerge.

The bottom line is that disintermediation / reintermediation are important factor, in supply chain design. Because disintermediation and reintermediation are the vital issues that must be evaluated, both from a proactive and a preemptive perspective.

The terms disintermediation and reintermediation have been briefly discussed below:

DISINTERMEDIATION

Disintermediation describes the process of eliminating traditional intermediaries. Eliminating intermediaries can potentially reduce costs since each intermediary must add to the price of the product in order to profit. Taken to its extreme, disintermediation allows the supplier to transfer goods and services directly to the consumer in a direct channel. Complete disintermediation tends to be the exception because intermediaries can often handle them. An intermediary that specializes in one function, such as product promotion, tends to become more proficient in that function than a nonspecialist.

In economics, **disintermediation** is the removal of intermediaries in a supply chain: "cutting out the middleman". Instead of going through traditional distribution channels, which had some type of intermediaties (such as a distributor, wholesaler, broker, or agent), companies may now deal with every customer directly, for example via the Internet. One important factor is a drop in the cost of servicing customers directly.

Disintermediation initiated by consumers is often the result of high market transparency, in that buyers are aware of supply prices direct from the manufacturer. Buyers bypass the middlemen (wholesalers and retailers) in order to buy directly from the manufacturer and thereby pay less. Buyers can alternatively elect to purchase from wholesalers. Often, a business to a consumer (B2C) intermediary functions as the bridge between the buyer and the manufacturer.

The internet has added new intermediaries that did not exist previously. For example, Yahoo! Broadcast aggregates multimedia content. Yahoo! And Yahoo! Broadcast together are like a record store, audio bookstore, radio broadcaster, and TV broadcaster all rolled into one. Other new intermediaries include shopping agents, buyer cooperatives, and **metamediaries**.

REINTERMEDIATION

Reintermediation can be defined as the reintroduction of an intermediary between end users (consumers) and a producer. This term applies especially to instances in which disintermediation has occurred first.

Although at the beginning of the Internet revolution, electronic commerce brought the idea of disintermediation to many producers, as a way of cutting costs or increasing profits, many (if not most) of those producers found out that it was not so easy. It was thought that the Internet would "disintermediate" middlemen and drive them out of business by having producers sell directly to users.

However, what these predictions missed was that cutting out the middleman brought problems such as the high cost of handling to ship small orders, dealing with massive amounts of customer service issues and confronting the wrath of retailers and other channel partners. Producers did not consider that they had to spend huge resources to accommodate presales and postsales issues of individual consumers. Before disintermediation, those middlemen acted as salespeople for the producers. After disintermediation, somebody had to handle those customers. Furthermore, producers did not consider that selling online also has high costs which they have to incurr for developing the web site, maintaining the information and marketing expenses to draw online customers.

May be most importantly, producers did not consider the fact that being the only source of their products for online consumers is similar to having only one store in a city selling a particular brand. Many thousands or even millions of web middlemen are pushing their own products and spending money to draw customers to their web sites. So if a producer shuns those middlemen, it gets less "shelf space" on the web and therefore the decrease of the probability of getting online sales for their products.

Both reintermediation and disintermediation are results of the dynamic nature of the Internet.

The most notable example to disintermediation is Dell, which has succeeded in creating a brand, well recognized by consumers, profitable and with continuous growth. Likewise, maybe the most notable example to reintermediation is the Levi Strauss company, who unsuccessfully launched a multimillion dollar web site and later shut down most of its online operations.

SALIENT FEATURES OF DISINTERMEDIATION / REINTERMEDIATION

Disintermediation and reintermediation are basically both related to the reorganization of the supply chain management of a company. If the company goes in for the complete elemination of the intermediaries then it is called disintermediation and if it is reorganized on the basis of some important considerations of bringing in economy in the operations of its supply chain management, then it is called reintermediation.

Following the salient features of disintermediation have been discussed which will also be applicable to reintermediation.

(1) Extent of Disintermediation

Disintermediation is the elimination of stages of the supply chain. The first relative dimension is how much of the supply chain is eliminated. One way to characterize this is by considering the "value added" of steps which are eliminated by the process–a surrogate of which is the percent of the final cost of the produce to the consumer which was previously captured by the eliminated supply chain stages. Further, the value that was added by the eliminated steps may be replaced by other value-adding players at a cost–perhaps more in line with the actual value added. For example, Compaq Computer Corp. offers to sell consumers direct to end consumers, which previously were available through wholesale-retail channels.

An alternate way to measure the extent of disintermediation is to simply count the number of entities eliminated by the disintermediation. If the wholesaler and the retailer were eliminated, then it may be called to be a "two-level" disintermediation.

(2) Source of the Disintermediation

The second dimension of disintermediation identifies the instigator of the disintermediation. Disintermediation may originate from a manufacturer, selling directly to end consumers. It may also originate even from the consumer. So-called "reverse auction" sites that allow consumers to specify an item they wish to purchase, allowing producers and others to bid on the item. Disintermediation may be instigated by the author or creator of a work, such as Steven King selling his books directly to the public or musician Peter Breinholt selling his music directly to consumers. On the flip side, the online book retailer Barns & Noble touts the service to "Publish Your Book," encouraging authors to bypass traditional publishers in favor of online publishing. Also, disintermediation may originate from third party aggregators or “buyer’s clubs” that link consumers with producers for lower prices.

(3) Perceived Motivation for Disintermediator

This dimension considers the motivation of the disintermediator who was identified in the prior dimension. It also captures the objective of the disintermediation. Various motivations can be involved in a specific case of disintermediation. Nevertheless, some motivations will tend to dominate. The following motivations may carry weight in many situations:

- **Cost reducing** - Disintermediation may sometimes be perceived to eliminate (or replace) cost-incurring steps of the supply chain. For example, Dell Computer has been successfully competed in an industry with frequent margin squeezes by eliminating the traditional retail model and instead selling directly to consumers.
- **Competitive response** – Some companies may have to go in for disintermediation because of the actions of a competitor. For example, the rapid growth of Amazon.com as an on-line bookseller appears to be the major motivation for the Barns & Noble bookstore chain starting to sell books on-line. For Barns & Noble, this was a responsive, albeit somewhat cannibalistic, act.
- **Value improving** – Disintermediation may help to provide greater value to consumers, even at the same cost. Another way to consider the success of the Dell on-line model is to see that perhaps their prices are not much better than many brick and mortar retailers, but that Dell offers custom configurations of more state-of-the-art models.
- **Rrelationship capturing** – Disintermediation may help to form relationships where alliances were not previously possible. For example, Oakley fashion sunglasses can be purchased at retail locations, but can

also be purchased on-line directly from Oakley. (http://www.Oakley.com) Oakley usually has no idea who consumers are in retail sales.

However, the on-line sales directly from the company allow Oakley to gather customer data that may potentially be the best target market they could have (i.e. former purchasers). Disintermediation will generally involve a variety of motivations of various weights.

(4) Involvement of the Retailer in Disintermediation

As retailers are perhaps the most frequently displaced element of supply chains and if the retailer is displaced, the issue of this dimension is the whether the retailer is ignored, informed, or involved in the disintermediation by the disintermediation. It may also capture whether the actions of the disintermediator are considered friendly or hostile (or neutral) by the retailer. If by disintermediation there is an incentive for the physical retailer to help promote the disintermediation, it will be considered as a welcome step by the retailer otherwise, there exists a great disincentive for the retailer due to disintermediation.

As both physical as well as direct channels can work simultaneously and even the role of the existing retailers can be given a new dimension, if it is done it will keep intact the involvement of the retailer.

(5) Benefits of Disintermediation to the Retailer

The fact that a retailer is bypassed through disintermediation does not imply that the retailer is given no consideration in the process. In fact, the disintermediator may provide benefits to the displaced retailer for either benevolent or self-serving reasons. In the case of a partial disintermediation, the retailer may be publicized by the disintermediator. Further, the disintermediator may refer customers to the displaced retailer for similar or other product. Complex products that require installation or other support might be best handled by physical retailers. In that case, it can be to the disintermediator's advantage to refer those purchases to the traditional retailer, and focus on low-support products for online sales. In extreme cases, the disintermediator may actually compensate the displaced retailer for lost business.

(6) Presence of Reintermediation

Just as "disintermediation" eliminates the need for specific elements of a supply chain, "reintermediation" adds new element(s) to the supply chain. In some cases, a new element of a supply chain simply replaces a single displaced element. In such cases, reintermediating entity replaces multiple supply chain elements. The question of this dimension is whether the disintermediated supply chain was subsequently reintermediated and who is doing the reintermediating. Was the reintermediator an entity that was originally part of the supply chain ("internally reintermediated")? Or, was the reintermediation accomplished by an entity that is new to the supply chain ("externally reintermediated")? A common example of the latter is "aggregators," which are organizations that gather product information from a number of suppliers and provide consumers with feature and price comparisons. (e.g. http://www.addall.com, http://www.bestbookdeal.com, http://www.pricescan.com, etc.)

(7) Limiting Factors of disintermediation / reintermediation

Those factors which limit the extent to which disintermediation is practical or possible may limit disintermediation e.g. copyright law. Nevertheless, it is clear that in the flagrant violation of copyrights is motivating efforts to reduce or control that disintermediation. There may be other cases of disintermediation that are governed by legislation other then copyright law. An example of regulation is the distribution of prescription drugs. The potential for drug manufacturers to disintermediate drug retailers is likely to be limited by the strict regulations about the distribution of drugs. Related supply chains may be resistant to disintermediation, not by regulation, but by the safety needs that are met by current supply chain members. For example, there might be cost advantages to disintermediation physicians in the delivery of basic medical advice. Attempts have been made to develop "knowledge bases" of medical knowledge. (e.g. http://www.webmb.com) However, the complexity and variety of medical conditions may lead to safety concerns that may in turn prevent online medical advice from ever being an adequate substitute for physicians.

CONCLUSION

It may be concluded that internet-related disintermediation has occurred less frequently than many expected during the dot com boom because retailers and wholesalers provide essential functions such as the extension of credit, aggregation of products from different suppliers, and processing of returns. In addition, shipping goods to and from the manufacturer can in many cases be far less efficient than shipping them to a store where the consumer can pick them up (if the consumer's trip to the store is ignored). In response to the threat of disintermediation, some retailers have attempted to integrate a virtual presence and a physical presence in a strategy known as bricks and clicks.

Thus for the time being, for most of the companies complete disintermediation is not the most appropriate solution to cut down their costs on supply chain. It will be better off if they go in for reintermediation i.e. reorganise the supply chain management by making the most requisite changes.

SUMMARY

One aspect of the Internet, that has received much attention, is the web's ability to close the gap between buyer and seller, thereby reducing or even completely eliminating layers of middlemen or intermediaries in the distribution channel. In their quest to meet the needs of demanding customers, companies have restructured, reorganized, and reengineered to increase organizational effectiveness and better satisfy key customers.

Disintermediation describes the process of eliminating traditional intermediaries. Eliminating intermediaries can potentially reduce costs since each intermediary must add to the price of the product in order to profit. Taken to its extreme, disintermediation allows the supplier to transfer goods and services directly to the consumer in a direct channel. Complete disintermediation tends to be the exception because intermediaries can often handle them. An intermediary that specializes in one function, such as product promotion, tends to become more proficient in that function than a nonspecialist.

Reintermediation can be defined as the reintroduction of an intermediary between end users (consumers) and a producer. This term applies especially to instances in which disintermediation has occurred first.

Both reintermediation and disintermediation are results of the dynamic nature of the Internet. Disintermediation and reintermediation are basically both related to the reorganization of the supply chain management of a company. If the company goes in for the complete elemination of the intermediaries then it is called disintermediation and if it is reorganized on the basis of some important considerations of bringing in economy in the operations of its supply chain management, then it is called reintermediation.

The various noteworthy features of disintermediation may be cost reducing, competitive response, value improving, relationship capturing,

involvement of the retailer in disintermediation and benefits of disintermediation to the retailer.

There may be some limiting factors for disintermediation / reintermediation like copyright act, drug supply act etc.

For the time being, for most of the companies complete disintermediation is not the most appropriate solution to cut down their costs on supply chain. It will be better off if they go in for reintermediation i.e. reorganise the supply chain management by making the most requisite changes.

Important Questions

Q.1: What do you understand by the concepts of Disintermediation and Reintermediation?

Q.2: Discuss the various persumed motivations for Disintermediation and Reintermediation?

Q.3: What are the factors which limit the scope of Disintermediation and Reintermediation?

Q.4: Discuss the various benefitsof Disintermediation to the retailer?

Q.5: Discuss the need and importance of involvement of retailers in the process of disintermediation?

Q.6: Briefly discuss the salient features of Disintermediation?

Q.7: Discuss the various sources of Disintermediation.

Q.8: Discuss the various limiting factors for Disintermediation.

Q.9: Discuss the importance of retaining the existing middlen in the new setup of supply chain required by Disintermediation.

Q.10: Write an elaborated note on the future of Disintermediation for Indian companies.

UNIT V

LESSON

5 E-ENABLED LOGISTICS MANAGEMENT AND TRACKING SYSTEMS

Lesson Outline

- Logistic Management
- Physical Distribution
- Inventory Management
- Customer Service Level
- E-enabled Logistics Management
- E-enabled Tracking System
- Radio Frequency Identification Device
- Business Opportunities for Logistics Tracking in India
- Transactional Functional of Distribution
- Logistic Functions of Distribution
- Third Party Logistics

LEARNING OBJECTIVES

After reading this lesson you should be able to:

- Understand the meaning of e-enabled logistics and tracking system
- Know about the need of selecting the optimum logistics level.
- Possible measure to improve customer service performance.
- Understand about the functioning and usage of RFID for logistic management.
- No about the various business opportunities for logistics tracking in India.
- Learn about the need of IT for supply chain integration.
- Know the meaning and user of transport logistics.
- Know about the various logistic function performed by distribution.

In the present era of cut thought competition there is a price war amongst the manufacturers in various industries. Therefore appropriate inventory management is the most hot area. It extends a great deal of help if the supplies are received in the right time. It helps the buyers in maintaining inventories at just the right level so that they do not run out inventory or order too much of it. It results into savings due to reduce stock requirements.

The application of Internet technology has propelled the SCM concept to a new dimension. Originating as a management method to optimize internal costs and productivities, SCM has evolved through the application of e-business technologies into a powerful strategic function capable of engendering radically new customer value propositions through the architecting of external, Internet enabled collaborative channel partnerships. The emerging strategic capabilities of SCM and the empowering technologies to be found in the Internet provide the concept of logistics.

These days carrier's use of Internet based technologies in their operations is increasing. As organizations realizethe benefits of using the Internet for various business processes, they are demanding greater visibility and flexibility in their logistics operations. Carriers are working to turn that demand to their advantage, leveraging the Itnernet to reduce overhead, increase integration with partners and enhance customer service in a highly competitive logistics industry.

With the development of RFID and other related technologies, the electronic enabled supply chain will become part of every organization.

A supplier's/manufacturer's logistics system directly affects the middlement's ability to control costs and services to end users/customers. If a manufacturer/supplier provides erratic delivery service to distributor's manufacture's representatives, they are forced to carry higher inventory in order to provide a satisfactory level of product availability to end users. The inefficient logistics service results in increasing costs i.e. larger inventories for the distributors. This is also likely to create stockouts of the supplier's products at the distributor level. Neither result is beneficial, because distributor loyalty and marketing efforts will surely suffer and secondly, end users will eventually change suppliers.

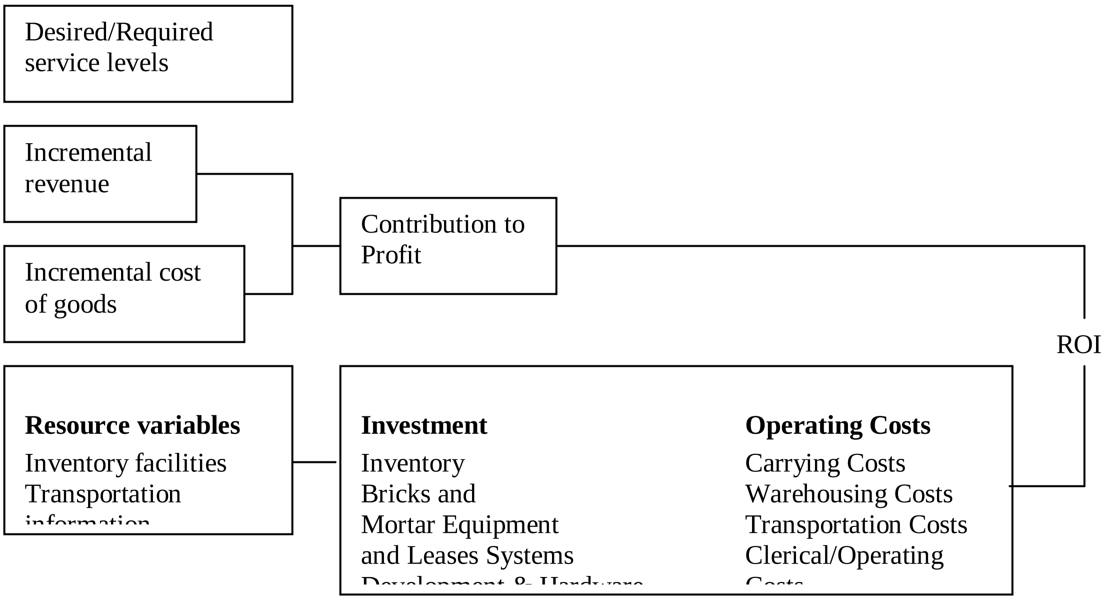
LOGISTICS MANAGEMENT

Logistics management involves the integration of transportation, inventory, facilities, and communications to provide a level of logistics service desired by customers and middlemen at the lowest possible cost.

A framework for selecting the optimum logistics system has been portrayed in Figure 5.1 below.

Figure 5.1

Framework for Selecting the Optimum Logistic System



Source: Adapted from "A Logistics Hotseat; Customer Service Redefined", Cleveland Consulting Associates, Cleveland, Ohio, 1978.

An appropriate logistics system requires an appropriate physical distribution design, efficient inventory management and an excellent customer service level.

Physical Distribution

Physical distribution activities are concerned with the storage and the movement of the finished products after their production and before their consumption.

According to Saxena, "The term physical distribution refers to the outbound logistics or to the flow of products, services and information from the firm to the consumer through a defined network of transportation links, distribution nodes and a dedicated network of computers linking the firm to the customer. This network may tie the firm to an individual customer or to other firms that may either use the product for further value addition or to distribute it to a larger market".[1]

According to Kotler, "Physical distribution involves planning, implementing and controlling the physical flows of materials and final goods from points of use to meet customer requirements at a profit".[2]

According to perreault and McCarthy, "Physical distribution concept the requires that transporting, storing and product handling activities of a business and a whole channel system should be co-ordinated as one system that seeks to minimize the cost of distribution for a given service level".[3]

From the various definitions, it can be said that physical distribution relates to the physical flow of goods from the manufacturers to the consumers and also between the producers to the marketing middlemen.

In the present day industrial set up there is the need for an efficient logistics system, which should enable quick deliveries and also be capable of easy tracing of inventory.

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1. Saxena Rajan, "Marketing Management", Tata McGraw Hill Publishing Company Ltd., New Delhi, 2002, p.413.
2. Kotler Philip, "Marketing Management – Analysis, Planning, Implementation and Control", Prentice Hall of India, New Delhi, 1994, p.585.
3. Perreault William D. and McCarthy Jerome E., "Basic Marketing", Tata McGraw Hill Publishing Company Ltd., New Delhi, 2005, p.323.

According to Taff, "The main activity centers of physical distribution are transportation, inventory warehousing, unitization and order processing".[4]

According to Agrawal, "Physical distribution function refers to the movement of finished goods from the last point of production to consumers or end users. In other words, this function of logistics facilitates marketing and sales performance of the enterprise by means of timely and economical product availability".[5]

Thus the various physical distribution considerations are important in the design of new channels of distribution and in the modification of existing systems because channel arrangements become physical distribution operating parameters.

Importance of Physical Distribution Management

Physical distribution provides place-utility and time-utility to a product. In other words, it is physical distribution that makes the product available at the right place and at the right time, thereby maximizing the company's chance to sell the product and strengthening its competitive position.

Physical Distribution Costs

The costs of physical distribution rank third in the total cost of goods and are exceeded only by costs of raw materials and labour. Economies achieved in physical distribution of goods will go a long way in reducing the total logistics costs.

According to Ramaswamy and Namakumari, "Physical distribution is a fertile area for cost savings. Over the years, in most businesses, physical distribution costs have grown into a sizable chunk of the total costs and now

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4. Taff Charley C., "Management of Physical Distribution and Transportation", Richard D. Irwin Homewood, 1972, pp.3-20.
5. Agrawal, D.K., "Logistics and Supply Chain Management", Macmillan India Ltd., New Delhi, 2003, p.36.

ranks second among all cost elements, next only to material costs. And surprisingly, it has remained one of the neglected areas of cost control".[6]

Till recently, cost reduction has been being adopted in the production and the marketing functions. Now, it is being adopted even in physical distribution management. Savings effected thereby lead to a healthy bottom line. Physical distribution efficiency is closely related to customer service.

Inventory Management

Inventory management is the "buffer" in the logistic system. It is another important elements of physical distribution management. Inventories are needed in industrial channels because of three important reasons. First, production and demand for industrial products are not perfectly matched. Secondly, operating deficiencies in the logistics system often would result in product unavailability e.g. delayed shipments, inconsistent carriers' performance. Thirdly, industrial customers cannot predict their product needs with certainty e.g. a machine breakdown or a sudden need to expand production. Inventory is an alternative method for providing the level of service required by industrial users. The level of inventory is determined on the basis of cost, investment and revenue.

Customers Services Level

The service level and physical distribution system (PDS) design, that yield the highest contribution of sales minus physical distribution costs must be identified. The principal constraint in doing this is the difficulty of measuring customer service and estimating sales response to service level. A predetermined customer service level is selected as a minimum, and the system is designed to meet this level with a minimum of cost.

Several possible measures of customer service can be glanced from Fig.5.2. The choice of an appropriate measure or measures is situation specific and is based on the service factor(s) most closely linked to customer satisfaction.

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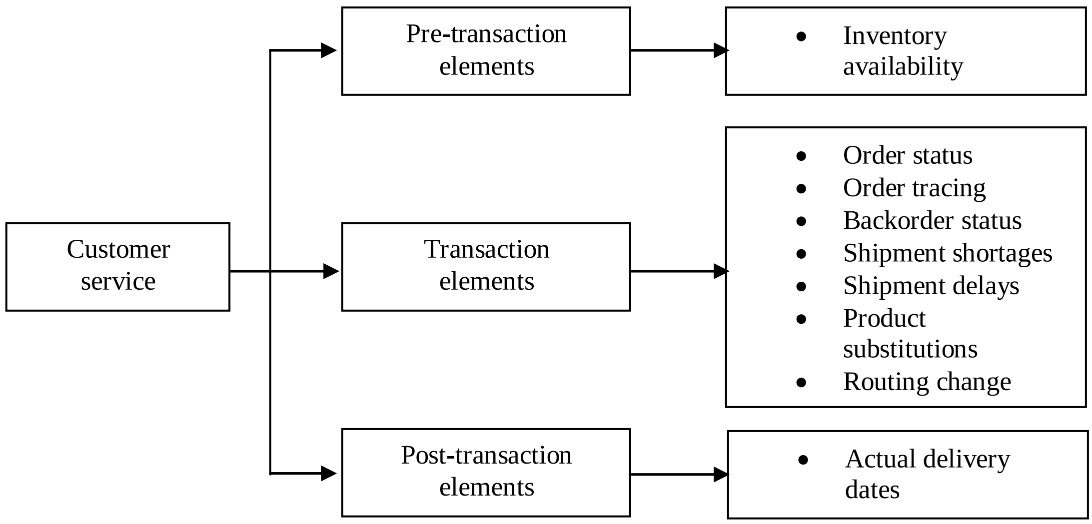
6. Ramaswamy V.S. and Namakumari S., "Marketing Management", MacMillan India Ltd., New Delhi, 202, p.373.

The pre-transaction elements use measures that designate service capability before it is provided. A target delivery data indicates the planned time of delivery. The transaction elements gauge service performance for various components of buyer-seller transactions. The post-transaction elements measure customer service based on results or outcomes. (David W. Cravens *et al.* Marketing Management, Homewood, Illinois, Richard D. Irwin, INC. 1988, p.444). It must not be lost sight of that establishing communications between buyers and sellers is an important factor in customer service.

Figure 5.2

Possible Measures of Customer Service Performance



Source: Douglas M. Lambert and James R. Stock, Strategic Distribution Management (Homewood, III, Richard D., Irwin, 1982), p.75.

E-ENABLED LOGISTICS MANAGEMENT

The logistics industry is undergoing a transformation as it is becoming more and more e-enabled. It is becoming more dependent on information technology to optimise storage and movement of inventory. This has provided many an opportunity for software, hardware and services organisations targeting the logistics segment. To meet these demands, the general tendency has been to outsource service providers like third party service. To build up strength, many third party service providers are going in for collaborations with fourth party logistics mainly for consultancies and technology. The logistics services were being offered on cost plus basis. Using fourth party logistics as the base, e-Logistics has developed `eTrack' — an innovative GSM based tracking system for tracking mobile assets such as trucks, buses and vans, trailers, containers as well as personal and public utility transport. The device along with applicable software tools would enable truckers and shippers to exactly pinpoint the location of their vehicles To begin with, e-Logistics industry had signed up with various truck owners and shippers for installing, maintaining and providing web-enabled information on the location of the trucks. Companies such as HLL, Castrol, Maruti, Ford, Hyundai and the like had already finalized the alliance with e-Logistics industry for supply of tracking devices to their transporters.

E-enabled Tracking System

The need for tracking is necessary for knowing about the exact location of the inventories and to take some decisions on the basis of this information. The term 'tracking' in logistics management means getting information about the status of inventory and the location of inventory carrying vehicles etc. When this information or tracking system uses some electronic devices for it then it is called e-enabled tracking system.

The orders can be tracked by order number, waybill number, customer's name or telephone number. Status information includes inventory on hand, delivery information, purchase order validation, shipment transit information, EDD (estimated delivery dates) and other information that enhances product visibility through the supply chain. As part of ongoing commitment to develop supply chain applications, new advances to increase velocity of critical information include: 1) An Order Management System that improves ability to manage the product procurement process on a global scale, 2) A

Transportation/Operation Planning System that offers the dynamic capability to manage inbound and outbound orders, 3) A central managed inventory that provides a global view of inventory across the network, either by product or location, 4) Integration applications that allow connectivity across trading partners, 5) Merge-in-transit that allows for single source consolidation of multiple orders into a single delivery.

An e-enabled tracking system enables the company to provide a wide variety of information such as the precise location of a truck, idle time and estimated time of arrival at destination.

The tracking solution does not require any intervention of the truck driver and data gets automatically transferred to E-Logistics as the truck passes through a cellular tower.

Two-way communication between the truck owner and driver can be provided through telemetric services.

RADIO FREQUENCY IDENTIFICATION DEVICE (RFID)

Radio Frequency Identification Device (RFID) is the technology that is associated with tracking wildlife or enabling drivers to speed past electronic tollbooths on the highway. Its working is simple. A radio frequency transponder that contains a microchip (RFID tag) is placed on something being tracked and it will emit or reflect a signal whenever it passes under a scanner. Decreasing chip prices have made RFID technology cost effective for the supply chain.

RFID Technology and Tracking Systems

RFID Technology has an improvement over the bar-code technology. Bar-code technology requires the forklift driver or warehouse operator to scan the label on each carton manually to track what's being moved. RFID technology would enable the same tracking by equipping an archway or doorway with an RFID scanner that registers what's in the load when the forklift drives through. The scanner simply reads the signals of tags within radio transmission range. No human effort is required to track the load, except to drive it through.

RFID is an automated form of bar-code tracking. Though both are used for tracking the movement of goods, RFID can provide much more detailed information on what the product is, where it's going, and how to handle it. RFID tags have far greater capacity than bar-code labels for storing information.

In the future, supply chain management will require more than just counting boxes. With RFID technology, manufacturers will know more about their inventories than just numbers.

Additionally, the new generation of RFID technology is being reinvented to work using the Internet. That unique product identifier could be hyperlinked to additional information, including manufacturing batch and production history, product handling instructions, storage or delivery instructions, expiration dates, and other details. The possibilities are limited only by the imagination.

Business Opportunities for Tracking in India

Significant business opportunities await cellular service providers and manufacturers of e-logistics devices for vehicle tracking from the public sector oil companies in India.

As increased quantities of petroleum products are being moved across the length and breadth of the country in tankers, oil companies are planning to introduce vehicle tracking systems for better fleet management.

While this means big bucks for companies engaged in manufacture of e-logistics devices, cellular service providers can also help themselves to a slice of this pie, since the vehicle tracking systems essentially use the cellular networks for two-way communication between the tanker owners and drivers.

IOC, which accounts for about 56 per cent of the country's total petroleum consumption, has taken the lead in this regard, with HPCL and BPCL putting up similar schemes on their drawing boards.

IOC is launching real-time truck tracking solution with the help of BSNL and Chennai-based E-Logistics, which has brought out a patented vehicle tracking system called e-Track.

The truck tracking solution operates on GSM technology, which involves mounting a tracking device on the truck.

The device operates on the mobile network through auto generation of SMS messages at pre-determined intervals, which are captured by BSNL's towers and communicated to the central server of E-Logistics.

HPCL is also planning to launch vehicle tracking systems, having recently completed a pilot project. BPCL is studying the vehicle tracking devices market, while initiating dialogues with some of the manufacturing companies and cellular service providers.

With the concept of fleet management through e-logistics solutions gaining brisk grounds in the country, industry observers are of the opinion that new players would enter the market, bring out new tracking devices.

When Wal-Mart required suppliers to track inventories with bar codes over a decade ago, the results revolutionized supply chain management practices. At the time, the goal of Wal-Mart's program was to track the flow of product from dock to stock automatically. With the start of Wal-Mart’s use of radio frequency identification (RFID) it is about to make history again.

Need of IT in Supply Chain Integration

Owing to the need of increased control and visibility, it is becoming very necessary to keep track of orders and get visibility into the inventory at each step in the supply chain. IT based e-enabled logistic and tracking system can prove a great help to the distributors as they perform many value-added functions. These functions can be broadly characterized as:

a) Transactional

b) Logistical

a) TRANSACTIONAL FUNCTIONS

Transactional functions refer to making contact with buyers and using marketing communication strategies to make them aware of products. They also include matching product to buyer needs, negotiating price, and processing transactions.

Contact with Buyers

The Internet provides a new channel for making contact with buyers. The Internet channel adds value to the contact process in several ways. First, contact can be customized to the buyer's needs. For example, the Honda site (www.honda.com) allows customers to find a dealer in their area where they can buy Honda vehicles. Second, the Internet provides a wide range of referral sources such as search engines, shopping agents, newsgroups, chat rooms, e-mail, Web pages, and affiliate programs. Third, the Internet is always open for business, 24 hours a day, seven days a week.

Marketing Promotion and Communications

The Internet enhances promotional coordination among intermediaries. Firms e-mail ads and other material to each other, and all firms may view current promotions on a Web site at any time. In contrast, companies in the brick-and-mortar world would sometimes run promotions that retailers would not know about it until consumers begin asking for the special deals.

The Internet adds value to the marketing communications function in several ways. First, functions that previously required manual labor can be now automated.

Secondly, communications can be closely monitored and altered minute by minute. Third, software for tracking a user's behavior can be used to direct highly targeted communications to individuals.

Matching Product to Buyer's Needs

The Web excels at matching product to buyer's needs. Given a general description of the buyer's requirements, shopping agents can produce a list of relevant products. Shopping agents allow consumers to quickly compare prices and features within product categories. Online retailers can also help consumers match product to needs.

Negotiating Price

True price negotiation involves offers and counteroffers between buyer and seller such as might be conducted in person, over the phone, or via e-mail – a two-way dialogue. Even so, shopping agents implicitly negotiate prices downward on behalf of the consumer by listing companies in order of best price first. Bidding, on the other hand, is a form of dynamic or flexible pricing in which the buyer gives suppliers an equal opportunity to bid. Many businesses currently conduct bidding online.

Online bidding has the effect of widening the supplier pool, thereby increasing competition and lowering prices. Many auction houses allow buyers to program an agent to represent them in bidding against other buyers or their agents.

b) LOGISTICAL FUNCTIONS

Logistical functions include physical distribution activities such as transportation and inventory storage, as well as the function of aggregating product. Logistical functions are often outsourced to third-party logistics specialists.

Physical Distribution

Most products sold online are still distributed through conventional channels. Yet any content that can be digitized can be transmitted from producer to consumer over the Internet: text, graphics, audio, and video content etc. Products currently delivered over the Net include television and radio programs, magazines, books, newspapers, software, videos, and music. Online distribution costs are significantly lower. Physical distribution of digital products, is comparatively expensive. Physical distribution first requires the costly step of embedding the content in a medium such as newsprint, plastic-coated paper, a

CD, or a diskette. The medium must then be packaged and shipped to the consumer, further increasing costs.

Aggregating Product

In general, suppliers operate more efficiently when they produce a high volume of a narrow range of products. Consumers, on the other hand, prefer to purchase small quantities of a wide range of products. Channel intermediaries perform the essential function of aggregating product from multiple suppliers so that the consumer can have more choices in one location.

Third-Party Logistics – Outsourced Logistics

A major logistics problem in the business to business (B2B) market is reconciling the conflicting goals of timely delivery and minimal inventory. One solution for many companies is to place inventory with a third-party logistics provider. Taking logistics one step further, third parties can also manage the company's supply chain and provide value-added services such as product configuration and subassembly. The logistics providers will even handle the order processes, replenish stock when needed, and assign tracking numbers so customers can find their orders.

Summary

Logistics management involves the integration of transportation, inventory, facilities, and communications to provide a level of logistics service desired by customers and middlemen at the lowest possible cost.

An appropriate logistics system requires an appropriate physical distribution design, efficient inventory management and an excellent customer service level.

The costs of physical distribution rank third in the total cost of goods and are exceeded only by costs of raw materials and labour. Economies achieved in physical distribution of goods will go a long way in reducing the total logistics costs.

The logistics industry is undergoing a transformation as it is becoming more and more e-enabled. It is becoming more dependent on information technology to optimise storage and movement of inventory. This has provided many an opportunity for software, hardware and services organisations targeting the logistics segment. To meet these demands, the general tendency has been to outsource service providers like third party service.

The need for tracking is necessary for knowing about the exact location of the inventories and to take some decisions on the basis of this information. The term ‘tracking’ in logistics management means getting information about the status of inventory and the location of inventory carrying vehicles etc. When this information or tracking system uses some electronic devices for it then it is called e-enabled tracking system.

An e-enabled tracking system enables the company to provide a wide variety of information such as the precise location of a truck, idle time and estimated time of arrival at destination.

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Important Questions

Q.1: What do you understand by the term, e-enabled logistics system?

Q.2: Discuss the need and importance of e-enabled logistic system.

Q.3: What is an inventory tracking system? How it can be made e-enabled?

Q.4: What is RFID? Discuss its uses in logistics management.

Q.5: Discuss the various business opportunities for logistics tracking in India.

Q.6: Discuss the various transactional functions of distribution.

Q.7: Discuss the various logistics functions of distribution.

Q.8: What is third party logistics? Discuss its importance.

Q.9: Prepare a sketch of the appropriate framework for selecting the optimum logistics system.

Q.10: Write a short note on the need and significance of IT for supply chain integration.