

Distribution

Distribution means the process by which we make the goods or the service available to the end consumer. Generally, the place of production is not the same as the place of consumption. So the goods have to be distributed to overcome the barrier of place.

Distribution Models:

Definition: *The manner in which goods move from the manufacturer to the outlet where the consumer purchases them; in some marketplaces, it's a very complex channel, including distributors, wholesaler, jobbers and brokers.*

When deciding how to distribute your product, use the traditional distribution model as a starting point. The conventional distribution model has three levels: the producer, the wholesaler and the retailer. This is a time-tested system with many well-established members at all levels.

Physical distribution

It is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products. The importance of physical distribution is also based on its relevance to customer satisfaction. By storing goods in convenient locations for shipment to wholesalers and retailers, and by creating fast, reliable means of moving the goods, small business owners can help assure continued success in a rapidly changing, competitive global market.

Philip Kotler has defined physical distribution as, *“Physical distribution involves planning, implementing and controlling the physical flow of materials and final goods from the point of origin of use to meet consumer needs at a profit.”*

According to William J. Stanton, *“Physical distribution involves the management of physical flow of products and establishment and operation of flow systems.”*

According to Wendell M. Smith – *“Physical distribution is the science of Business Logistics where by the proper amount of the right kind of product is made available at the place where demand for it exists. Viewed in this light, physical distribution is key link between manufacturing and demand creation.”*

According to Cundiff and Still – *“Physical distribution involves the actual movement and storage of goods after they are produced and before they are consumed.”*

According to Mc Carthy – *“Physical distribution is the actual handling and moving of goods within individual firms and along channel system.”*

It is concluded from the definitions that Physical distribution is:

- science of logistics.
- the main mid-link between manufacturing and creation of demand.
- a management of flow of commodity and flow arrangement simultaneous to distribution channel of the commodities of company and inside the firm/company.

- related to the receipt of proposed and manufactured commodities, collection, and material handling storage, transportation, packaging and inventory control etc., functions.

Objectives of Physical Distribution:

Physical distribution has two broad objectives viz. *consumer satisfaction* and *profit maximization*. A satisfied consumer is the biggest asset that a company has. A firm can provide satisfaction to consumers by making available right quantity of right goods at right place and time, at lowest costs. Prompt and dependable distribution enhances consumer satisfaction. At the same time, by offering better service at lower price of the product, the firm can attract additional consumers and make more profits. This can be done by improving the efficiency and effectiveness of physical distribution activities, firm can bring in economy which will have an effect on profit margin i.e. by lowering the physical distribution costs, profit position can be improved. *Apart from these two broad objectives, physical distribution has other objectives as follows:*

- To achieve minimum inventory level and speedier transportation.
- To establish price of products by effective management of physical distribution activities.
- To make available the right goods in right quantity at right time and right place at least cost.

Importance of Physical Distribution System:

Physical distribution activities have an important role to play in success of business.

1. Creating Time and Place Utility:

This is done through transportation and warehousing. Transportation system creates place utility as it makes available the goods at the right place where they are required. Warehousing creates time utility by storing the goods and releasing them when they are required.

2. Helps in Reducing Distribution Cost:

If these costs are handled systematically, decrease in costs of product can be there. Proper and systematic planning of transportation schedules and routes, warehousing location and operation, material handling, order processing, etc. can easily bring in cost economies.

3. Helps in Stabilisation of Price:

Even customers expect price stability over a period of time. Proper use of transportation and warehousing facilities can help in matching demand with supply and thus ensure stabilization of price.

4. Improved Consumer Services:

Consumer service in physical distribution means making products in right quantity available at right time and right place i.e. place where customer needs.

Components of Physical Distribution: A Systematic Approach

Physical distribution can be viewed as a system of components linked together for the efficient movement of products. These components are interrelated: decisions made in one area affect the relative efficiency of others. For example, a small business that provides customized personal computers may transport finished products by air rather than by truck, as faster delivery times may allow lower inventory costs, which would more than offset the higher cost of air transport.

Viewing physical distribution from a systems perspective can be the key to providing a defined level of customer service at the lowest possible cost.

1. Customer Service

Customer service is a precisely-defined standard of customer satisfaction which a small business owner intends to provide for its customers. 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 deliver goods on time.

2. Transportation

Transportation as a component of physical distribution is concerned with the movement of goods from the warehouse to customer destination. It includes loading and unloading of goods and their movement from one place to another. In doing so it provides time and place utility. Transport accounts for a major portion of the distribution cost and of the total price of the product.

i. Road Transport: This is an ancient form of transport and plays an important role in marketing. Road transport may be through different means like transport by animals (like bullock, camel), transport by human beings (like coolies or porters), transport by automobiles (like scooters, auto rickshaws, cars, truck buses etc.). Road transport is flexible and economical. However, it is unsuitable for long distances.

ii. Railways: It is suitable for transporting bulk goods over long distances. It is an economical mode because large volume of traffic is handled over large network of railways. However, it is inflexible as it is unfit to transport goods to rural areas. Further, it involves huge maintenance expenditure.

iii. Water Transport: Water way is an important mode of transport for heavy and bulky goods in large quantities. It consists of inland water transport and ocean transport. Inland water transport is used for transporting goods within country and ocean transport is used to transport goods to other countries. Water transport is a cheapest form of transport, having great carrying capacity and is highly suitable for heavy and bulky goods, but it has low speed and higher degree of risk due to seasonal difficulties.

iv. Air Transport: Of late air transport has assumed significant importance as a mode of transport. Although it accounts for a small percentage of transportation, it is useful for perishable items, overnight packages, emergency supplies etc. The main disadvantage of air transport is that it has high freight charges, low carrying capacity and too much dependence on climatic conditions.

v. Pipelines: These are specialized carriers design to transport the crude and refined petroleum and natural gas from wells to refineries and further to distribution centre. It is an economical mode as it involves less handling and labour cost, but it is the slowest mode of transportation and very limited in number.

While choosing the means of transportation, the following elements should be kept in consideration:

(i) Cost, (ii) Speed, (iii) Dependability, (iv) Frequency, (v) Power, (vi) Safety. Examples:

(i) For FMCG goods or Perishable Goods high speed transport system should be used.

(ii) For Gas and Petroleum the use of Pipeline is advisable.

3. Storage and Warehousing:

Storage means making proper arrangements for retaining the goods in proper condition till they are demanded by customers. There are many products which are seasonally produced but are used throughout the year, they can be stored and later released. Similarly, there are products which are produced throughout the year but are seasonally used like umbrella, fans, heaters, etc. Storage reduces the need for instant transportation which is difficult and costly.

Warehousing provides the storage function. Places where the goods are stored are known as warehouse. Goods are stored in warehouses to be released in time of demand. Apart from storing function, warehouses also perform other functions like, marketing and assembling the goods.

Two types of warehouses are there:

- *Storage Warehouses*
- *Distribution Warehouses*

Storage warehouse helps in storing the good for long and medium period of time to ensure matching of supply and demand. Distribution warehouses facilitate assembling the product and redistributing it within a short period of time. They can also be centralized (when located near factory) or decentralized (when located near market).

4. Order Processing:

Order processing is the starting point of any distribution activity. Order processing includes activities like receiving the order, handling the order, granting credit, invoicing, dispatching, collecting bills, etc. Each customer expects that the order placed by him is implemented without delay, and as per the specifications of the order. Thus, order processing becomes very important. Marketer should make effort to maintain the order cycle time i.e. the time period between the time of placement of an order by the customer to the time of arrival of goods at his destination. Standard procedure should be laid down for processing of order. Different steps of an order processing are as follows:

- (i) Orders placed by consumers to salesperson.
- (ii) Transmission of order by salesperson to the company.
- (iii) Entry of order in the Company Office.
- (iv) Evaluating the reputation of the customer.
- (v) Checking inventory and preparing schedule.
- (vi) Shipment of material in accordance to the order.
- (vii) Receiving Payment

5. Inventory Control:

By inventory we mean the stock of raw material, semi-finished goods and finished goods held in anticipation of sales or use. How much inventory should be kept for various items? This is an important decision in Physical Distribution. The main reason as to why this decision is important is that if the inventory is either more or less than required, both the situations have their advantages and limitations. Inventory acts as a bridge between the orders of customers and production. They are the reservoir of the goods held in anticipation of sales. Therefore, it needs to be properly managed and controlled.

(i) Low quantity of Stock:

If the quantity of inventory is kept low, then less amount of money is blocked and as a result of this investment is small. On the other hand, with the slight increase in demand because of the scarcity of inventory the consumers will turn to the rival companies.

(ii) Excessive Quantity of Stock:

If the stock is available in excessive quantity, then any demand can be met. So the risk that consumers will desert drops to zero. On the other hand, investing more in inventory will block the money unnecessarily and investments will increase. In short, after analysing the pros and cons of both the situations the decision about the adequate quantity of stock should be taken.

As Prof. W. J. Stanton states, “the goal of inventory control is to minimise both the investment and the fluctuation in inventories, while at the same time filling customer order properly and accurately.”

6. Material Handling:

Material handling includes all those activities which are associated in moving products when it leaves the manufacturing plant but before it is loaded on the transport. This activity has been in existence since very long period of time, and now it has developed as a system.

It involves moving the goods from plant to warehouses and from warehouses to place of loading in transport modes. Proper management of material handling helps in avoiding unnecessary movement of goods, avoiding damage to the goods, facilitate order processing and efficient movement of goods.

Material handling is the sub part of the total physical distribution system and helps in reduction in cost and better service to consumers. Effective management of material handling system leads to effectiveness of total physical distribution system and thereby makes it economical.