

DISTRIBUTION MANAGEMENT

Only study guide for
MNM2610



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Pretoria

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PREFACE

DEAR STUDENT

We have great pleasure in welcoming you to Distribution Management (MNM2610). We would like you to share our enthusiasm for this field of study and as a first step, we urge you to read this preface in detail. Refer to this study guide as often as you need to, since it will definitely make studying this module a lot easier.

Distribution management is a very exciting field and without it, no business can survive. It involves managing distribution channels, supply chains and value chains. This module will help you to gain an understanding of the management of distribution channels, supply chains, value chains, behavioural processes in distribution channels, logistics management and electronic marketing channels.

1. AIM OF THIS MODULE

The aim of this module is to help students of Distribution Management to gain an understanding of the management of distribution channels, supply chains and value chains. In this module we investigate the behavioural processes in distribution channels and logistics management, and introduce you to electronic marketing channels.

2. LEARNING OUTCOMES

Learners will be able to demonstrate a knowledge and understanding of

- the definition, nature and importance of distribution channels
- supply chain and value chain concepts
- distribution management from a South African perspective
- channel design and the selection of channel members
- the meaning, objectives and functions of logistics management
- the management of distribution channels
- important issues in distribution channel behaviour
- electronic marketing channels and how the internet influences distribution

3. OVERVIEW OF THIS MODULE

In this module we introduce you to the field of distribution. Distribution is one of the four Ps of marketing and is also referred to as “place” in marketing terminology. It has to be created and managed in order to satisfy consumer demands. Distribution management therefore deals with the most important aspects of effective distribution decision making, thus ensuring continued success in the market place.

The learning content and activities in this study guide will give you opportunities to explore the latest developments in this field and will help you to discover distribution management as it is practised today. We hope that you will enjoy the module.

4. STUDY PACK

The study material for this module consists of this study guide, a prescribed book and several tutorial letters. The tutorial letters will be sent to you during the course of the year. The prescribed book (which you must purchase yourself) is of vital importance because you will not be able to complete this module successfully without using it. In addition to the prescribed book, you are encouraged to consult other sources such as those that are available in the Unisa Library.

Please consult Tutorial Letter 101 for the details of your prescribed book and additional reading material.

We strongly encourage you to make every effort to join *myUnisa*. You will remember from Tutorial Letter 101 that *myUnisa* is the University's online community forum. From time to time, we will upload additional information and resources about this module on *myUnisa*. Students who do not have access to the internet should contact us to find the closest Unisa computer centre or internet café.

5. APPROACH TO LEARNING AND TEACHING IN THIS MODULE

The purpose of this study guide is to give you the opportunity to put into practice the theoretical concepts in the prescribed book and at the same time give you some exercises and questions to help you to prepare for the examination. It is essential that you work through this study guide because by doing this, you will improve your chances of performing well in the examination. However, there is no substitute for being thoroughly familiar with the theory that is discussed in the prescribed book. Your prescribed book and study guide complement one another in that the study guide will help you in the learning process, but studying it alone and ignoring the prescribed book will not equip you for success in the examination.

5.1 Suggestions on how to approach your studies for this module

Tutorial Letter 101 and this study guide will direct you as to how to approach the learning material and all other resources, and to consider how you may use them to your benefit (for example how to make the best use of *myUnisa*, peer collaboration groups, learning centres and career counselling). As a distance education student, you have to know whom to contact for academic and administrative matters and how to manage your time.

In this study guide, we make a definite distinction between the parts of the prescribed book that you simply have to read and the parts that you have to study.

- **Studying**

The sections that you have to study are clearly indicated and will form the basis of your assignments and the examination. To be able to do the activities and assignments for this module, to achieve the learning outcomes and to be successful in the examination, you will need a thorough understanding of the content of these sections in this study guide and in the prescribed book. To understand the study material properly, you have to accept responsibility for your own studies and have to realise that learning is far more than just memorising content. You will be expected to show that you understand and are able to apply the information – not just remember it.

- **Reading**

In some parts of this study guide you will be told to read a certain section in the prescribed book or this study guide. This means that you should take note of the content of the section because it usually provides useful background information, offers another perspective or gives further examples. It will give you some context, improve your ability to take notes and enhance your understanding.

You will have to spend at least 120 hours on this module. This includes approximately 40 hours of reading and studying the study material, 20 hours of doing the activities and assignments, and 60 hours of preparing for the examination. We encourage you to follow the proposed schedule with regard to the allocation of time for the various topics, study units and other activities as supplied in Tutorial Letter 101.

You may wish to read more widely than this study guide and the prescribed book. When you read information in the prescribed book or in other sources, do not simply accept it without question. Critically evaluate the ideas and information.

Test your understanding of the ideas that you learn about in this module by doing your best to apply them to real-life situations.

5.2 Importance of completing activities, assignments and self-assessment questions

5.2.1 Activities

There are various types of activities in this study guide. They require that you

- reflect on the work covered
- complete assessment questions
- do self-assessment

We consider the completion of the activities in this study guide and the assignments crucial for successfully completing this module. Firstly, the activities in this study guide will help you to reinforce your learning and, secondly, they will help to prepare you for the application questions that you will have to answer in your second year of studies and beyond.

5.2.2 Assignments

The assignments for this module are in Tutorial Letter 101. It is crucial that you complete the assignments to achieve the learning outcomes. By completing the assignments, you will get a feel for the type of questions that you can expect in the examination and you will get first-hand feedback from the lecturer. The assignment questions will also give you the opportunity to apply the theory to a case study or a practical situation that relates to your own workplace. We will inform you of the purpose of each assignment and which module outcomes will be assessed when we mark the assignment. We will also supply the criteria for assessment so that you can understand how to approach answering specific questions.

The details of the assignments, with their associated assessment criteria and the format of and requirements for the examination, are provided in Tutorial Letter 101.

5.2.3 Assessment questions

At the end of each section of this study guide, you will be referred to a list of possible assessment questions that are based on the work which has been covered in the section. We advise you to work through these questions diligently, since self-assessment plays a very important role in mastering the learning outcomes.

Most of the answers to these questions are in this study guide and the prescribed book. We believe that you should not have to face any surprises when you write the examination. Consequently, it is in your own interest to work through these assessment questions.

5.2.4 Assessment of the module

During the semester you will be assessed on your assignments and in the examination at the end of the semester you will be assessed in accordance with the transparent assessment criteria that will be linked directly to the outcomes of the module.

Your mark for the compulsory assignment, together with your final assessment, will count towards your total mark for the module. Further details of the assessment and examination requirements of this module are supplied in Tutorial Letter 101.

6. EXAMINATION

6.1 Prescribed material

All the study material is relevant for the examination. In addition to understanding the theoretical principles, we expect you to be able to apply the principles to a practical situation in a given case study or scenario.

6.2 Format of the examination paper

The format of your examination paper is explained clearly in Tutorial Letter 101. Your examination paper will have two sections. Section A will be compulsory and will consist of 20 multiple-choice questions, which will each count two marks. Section B will consist of a short case study and three essay questions, which will each count 15 marks. You will have to select and complete two of the three essay questions.

7. KEY CONCEPTS IN THE ASSIGNMENTS AND EXAMINATION

When we (your lecturers) formulate assignment and examination questions, we word them in specific ways so that you will know exactly what is expected of you. For example, we may ask you to “list”, “describe”, “illustrate” or “demonstrate” something; to “compare” two or more things; or to “construct”, “relate”, “criticise”, “recommend” or “design” something.

Below is an explanation of the various levels of cognitive thinking that we expect you to apply and the kinds of instructions that we will give you with regard to each. This system is known as Bloom’s taxonomy.

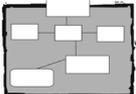
- *Knowledge*. This is essentially memorising and recalling information. At its simplest, it involves recalling facts or terminology such as names, dates and definitions. It can also involve recalling principles and generalisations, or ways of doing things. Outcomes/instructions at this level will typically be written with verbs (these are the words that tell you what you have to do) such as “name”, “list”, “define”, “label”, “select”, “state”, “write”, “describe”, “identify” and “recall”.
- *Comprehension*. This involves making sense of things rather than just remembering them. Comprehension usually requires that you translate information into your own words. Outcomes/instructions written at this level will typically be written with verbs such as “convert”, “illustrate”, “distinguish”, “interpret”, “rewrite”, “discuss”, “give examples” and “summarise”.
- *Application*. This is the ability to use information and ideas in new situations, such as in solving problems that have a single or best answer. Outcomes/instructions at this level will typically be written with verbs such as “calculate”, “demonstrate”, “construct”, “compute”, “solve”, “relate”, “show”, “use” and “apply”.
- *Analysis*. This is the ability to examine information in a systematic manner to identify important ideas, the relative hierarchy of those ideas and the relations between the ideas. Outcomes/instructions at this level will typically be written with verbs such as “analyse”, “differentiate”, “categorise”, “classify”, “relate”, “illustrate”, “outline”, “compare”, “contrast”, “discriminate”, “explain” and “hypothesise”.
- *Synthesis*. This is the ability to construct something new by combining several pieces of information to make a coherent whole (such as a plan). Outcomes/instructions at this level will typically be written with verbs such as “plan”, “adapt”, “combine”, “create”, “compile”, “compose”, “construct”, “model”, “revise”, “design”, “develop”, “formulate” and “organise”.
- *Evaluation*. This is the ability to make judgements about the quality or value of things (either with reference to internal evidence or external criteria). Outcomes/instructions

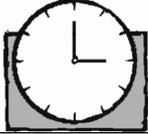
at this level will typically be written with verbs such as “assess”, “judge”, “choose”, “criticise”, “rate”, “argue”, “justify”, “evaluate”, “decide”, “recommend” and “conclude”.

In this module we expect you to operate on all levels of Bloom’s taxonomy. Please make sure that you know what is expected of you in each question.

8. USE OF ICONS

The icons that that we use in this study guide are listed below, together with an explanation of what each means:

ICON	DESCRIPTION
	<p>Learning outcomes. This icon indicates which aspects of a particular topic or study unit you have to master – and be able to demonstrate that you have mastered.</p>
	<p>Key concepts. This icon draws your attention to certain keywords or concepts in the topic or study unit.</p>
	<p>Study. This icon indicates which sections of the prescribed book or study guide you have to study and internalise.</p>
	<p>Read. This icon directs you to read certain sections of the prescribed book for background information.</p>
	<p>Activity. This icon refers to activities that you have to complete in order to develop a deeper understanding of the study material.</p>
	<p>Mind map. Mind maps are provided to help you to see the relationships between various parts of the learning material.</p>
	<p>Assessment. This icon indicates that you are required to test your knowledge, understanding and application of the material you have just studied.</p>
	<p>Feedback. This icon indicates that you will receive feedback on your answers to the self-assessment activities.</p>

	<p>Time-out. This icon indicates that you should take a rest because you have reached the end of a study unit or topic.</p>
	<p>Reflection. This icon requires you to reflect on the important issues or problems that have been dealt with in the study unit.</p>
	<p>Summary. This icon indicates that a summary of the main points of the study unit is provided.</p>

9. IMPORTANT ADVICE

The likelihood that you will pass the module will be improved if you consider the following hints:

- Study the prescribed study material conscientiously according to the guidelines provided.
- Discuss the subject matter with colleagues and specialists.
- Do the activities.
- Prepare for, complete and submit the compulsory assignments in time and also do the non-compulsory assignments.
- Apply your knowledge in practice.
- Prepare properly for the examination.

10. WHAT YOU CAN EXPECT FROM UNISA

You can expect us to do the following:

- Provide you with up-to-date and relevant study material that is regularly compared with and benchmarked against the study material of similar local and international programmes.
- Keep the study material in line with the needs of industry and commerce by consulting regularly with the profession and with industry leaders and government officials.
- Help you, as students, by giving you the opportunity to develop competencies and skills at a certain level. You will be assessed according to the level descriptors of the National Qualifications Framework at level 6.
- Support you whenever you require assistance. You may contact your lecturers by making an appointment to see them in person, by telephone, via e-mail or via the internet.

We understand that studying by means of distance learning is more challenging than attending a residential university.

- Provide you with clear indications of what we expect from you in terms of your assessment.
- Provide prompt feedback on assignments. We will return your assignment and our feedback within three weeks of the assignment's due date if you submitted it before its due date.

We hope that you will enjoy your studies! We are certainly looking forward to being your partners in this endeavour.

Best wishes

Your Distribution Management lecturers

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Topic 1

INTRODUCTION TO DISTRIBUTION CHANNELS

AIM

The aim of this topic is to introduce you to distribution channels and to give you an overview of a South African perspective on the topic.



Learning outcomes

After studying this topic, you should be able to

- define distribution channels
- discuss how distribution channels are managed
- discuss the supply chain, the value chain and various distribution channels
- consider the different distribution structure decisions
- discuss the distribution channels in a South African context
- compare various franchise opportunities

TOPIC CONTENT:

Study unit 1: The nature and role of distribution in the organisation

Study unit 2: The supply chain and the value chain, and their connection with the distribution function

Study unit 3: The channel participants from a South African perspective

Study unit 1

The nature and role of distribution in the organisation

INTRODUCTION

Distribution is the marketing instrument that delivers the product to the final consumer. There is usually a gap between the provider of a product or service and the consumer who requires it. The main function of distribution is to bridge this gap. A whole range of intermediaries can be involved in this process, such as retailers, wholesalers and agents. For example: in order for Coca-Cola to get their beverages from the factories to us (the consumers), they use wholesalers, convenience stores, supermarkets, spaza shops, et cetera as distribution outlets.



All these intermediaries together form their distribution channel.

OVERVIEW OF THIS STUDY UNIT

In this study unit you will be introduced to the topic of distribution channels. The definition, nature, importance, function and number of distribution channels will be presented to you through practical, everyday examples. At the end of this study unit, you should have a clear understanding of how distribution channels are managed in order to get products and services to the end consumer.

This study unit can be broken down into the following main topics on which you have to focus:

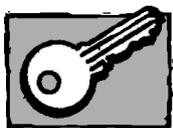
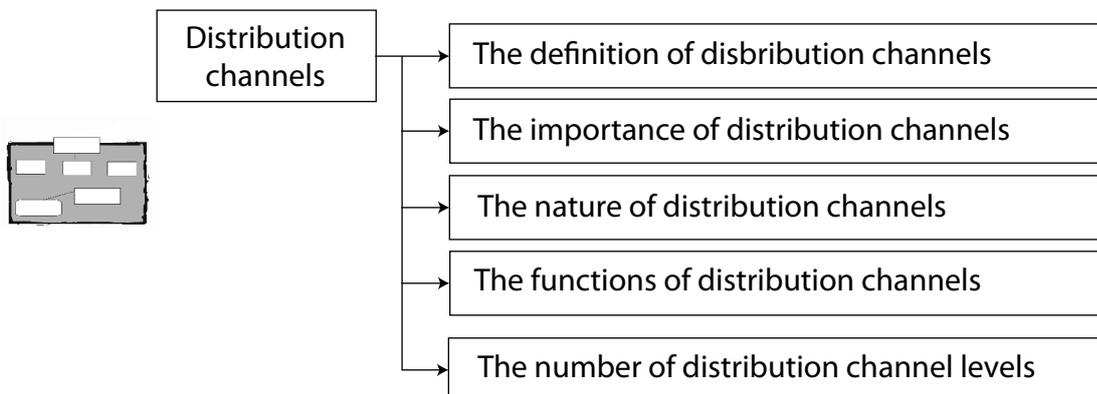
- the definition and importance of distribution channels
- the nature and function of distribution channels and how products move from the manufacturer to the consumer
- the number of distribution channel levels

You will need approximately three hours to work through this study unit to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 1.1 The definition of distribution channels
- 1.2 The importance of distribution channels
- 1.3 The nature of distribution channels
- 1.4 The functions of distribution channels
- 1.5 The number of distribution channel levels
- 1.6 Assessment
- 1.7 Reflection
- 1.8 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

On completion of this study unit, you should be able to explain/define the following concepts:

- distribution channels
 - intermediaries: manufacturers, wholesalers and retailers
 - functional performance
 - reduced complexity
 - specialisation
 - transactional functions
 - logistical functions
 - facilitation functions
-

1.1 THE DEFINITION OF DISTRIBUTION CHANNELS



(Study this section in the prescribed book.)

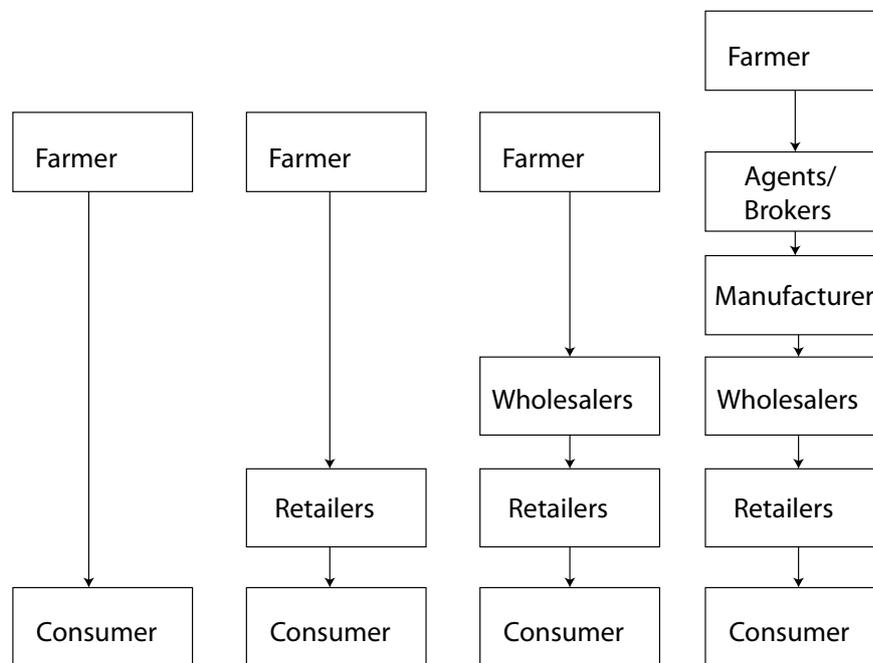
Once you have worked through this section, ensure that you are able to clearly define a distribution channel and can differentiate between the various distribution channel options.

A distribution channel is the “structure that links a group of individuals or organisations together through which a product or service is made available” (Cant & Van Heerden, 2011). Put more simply, a distribution channel is defined by the intermediaries that operate between the producer and the final buyer of the product. Intermediaries can be either middlemen (such as wholesalers or retailers) or agents that operate between the producer and the final buyer of the product or service.

Think of a dairy farmer who produces fresh milk for your morning porridge.



The diagram below shows the various distribution channels that are available to the dairy farmer so that he can get the milk delivered to you.



Can you think of a practical example for each of the intermediaries in the diagram above?

Below are some of the real-life intermediaries that can link you to the farmer:

- retailers: Woolworths, Spar, Pick n Pay and the corner café
- wholesalers: Makro and Trade Centre
- manufacturers: DairyBelle, Ola and Clover
- agents/brokers: independent milk delivery companies

Make sure that you can identify practical examples for each type of intermediary before you move on to the next section.

1.2 THE IMPORTANCE OF DISTRIBUTION CHANNELS



(Study this section in the prescribed book.)

Once you have finished studying this section, you should be able to clearly discuss the importance of distribution channels by means of practical examples.

Buying a computer through the post, buying petrol at a petrol station, obtaining a mortgage over the phone and buying phone cards from vending machines are just some innovations in distribution which create a competitive advantage as customers are offered newer, faster, cheaper, safer and easier ways of buying products and services.

One way to study the management of distribution channels is to identify the importance of distribution channels and to present reasons why businesses need them to create the competitive advantage mentioned above. In this section, three importance aspects of distribution channels are highlighted.

- (1) *Cost savings in specialisation.* Members of the distribution channel are specialists in what they do and can often perform tasks better and at a lower cost than companies that do not have distribution experience.
- (2) *Reduced exchange time.* Not only are channel members able to reduce distribution costs by being experienced in what they do, they also often perform their job more rapidly and this results in faster product delivery.
- (3) *Customer convenience.* Intermediaries within the channel of distribution serve two very important needs: they give customers the products they want by purchasing from many suppliers (termed accumulating and assortment services) and they make it convenient to purchase by making products available in a single location.



Activity 1

Can you think of any other reasons why distribution channels are important? Conduct some research in the library or online to supplement your knowledge.



Feedback

Were you able to find more reasons for the importance of distribution channels? Here are a few more reasons:

- *Intermediaries sell smaller quantities.*
- *Intermediaries help to create sales.*
- *Intermediaries can offer financial support.*
- *Intermediaries can work towards common goals and maximise economies of scale.*

1.3 THE NATURE OF DISTRIBUTION CHANNELS



(Study this section in the prescribed book.)

The key point that you should be able to discuss once you have worked through this section is that channels of distribution are also known as “place” in the “4 Ps” model of marketing. Make sure that you are able to describe the nature of distribution channels.

Distribution channels (or marketing channels) provide the utility of place, of having products where and when the customer wants them through the use of intermediaries.

You may now ask the question: Why does a business give the job of selling its products to intermediaries? After all, using intermediaries means giving up some control over how products are sold and who they are sold to.

The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation – which means that greater sales can be achieved. In the next section we look at the functions of distribution channels in more detail.

1.4 THE FUNCTIONS OF DISTRIBUTION CHANNELS



(Study this section in the prescribed book.)

As mentioned throughout his study unit, the main function of a distribution channel is to provide a link between production and consumption. The purpose of this section is to further highlight the various functions or roles that distribution channels fulfil. Please make sure that you are able to summarise and discuss the main functions of distribution when you have finished studying this section:

Information	Gathering and distributing market research and intelligence – important for marketing planning
Promotion	Developing and spreading communications about offers
Contact	Finding and communicating with prospective buyers
Matching	Adjusting the offer to fit the buyer’s needs, including grading, assembling and packaging
Negotiation	Reaching agreement on the price and other terms of the offer
Physical distribution	Transporting and storing goods
Financing	Acquiring and using funds to cover the costs of the distribution channel
Risk taking	Assuming some commercial risks by operating the channel (for example holding stock)

Source: http://tutor2u.net/business/marketing/distribution_introduction.asp

These functions can be classified into three main groups, namely: (1) transactional functions, (2) logistical functions and (3) facilitation functions.

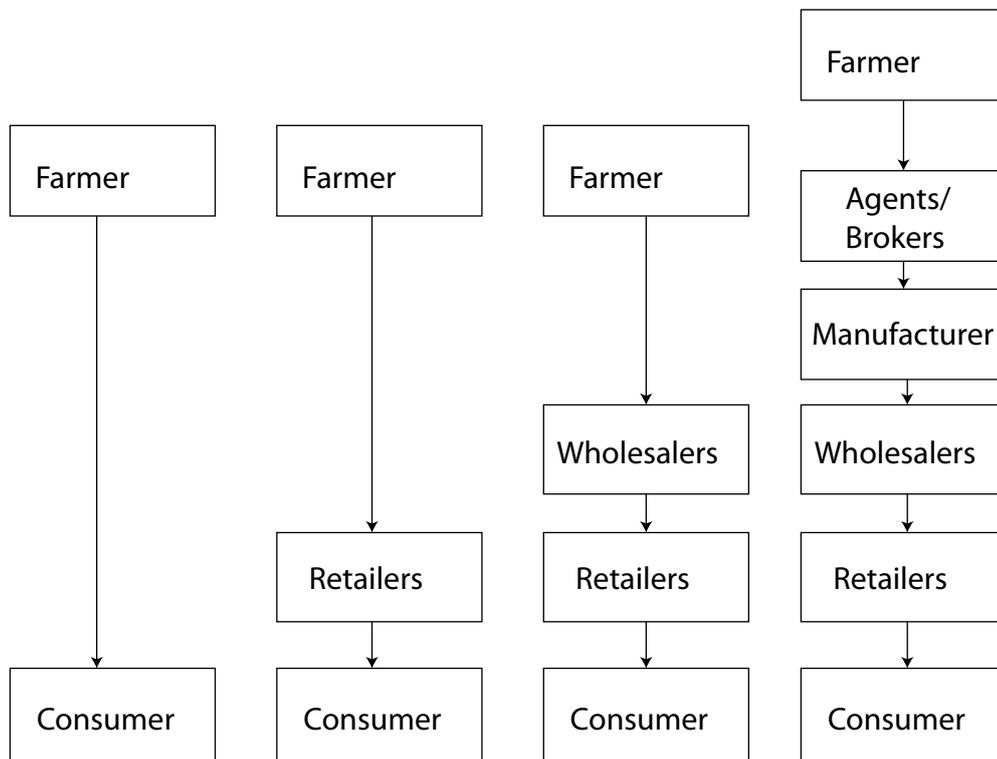
All the above functions have to be undertaken in any market. The question is: Who performs them and how many levels should there be in the distribution channel in order to make it cost effective? We discuss this in the next section of this study unit.

1.5 THE NUMBER OF DISTRIBUTION CHANNEL LEVELS



(Study this section in the prescribed book.)

Each layer of marketing intermediaries that perform some work in bringing the product to its final buyer is a “channel level”. After completing this section, ensure that you are able to identify and discuss the various distribution channel levels. The figure below shows some examples of channel levels for consumer marketing channels:



In the figure above, **channel 1** is called a **direct-marketing channel** since it has no intermediary levels. In this case, the milk farmer will sell the milk directly to you if you go and purchase it from the dairy farm. Another example of a direct marketing channel is a factory outlet store. Many holiday companies market directly to consumers, thereby bypassing a traditional retail intermediary – the travel agent.

The remaining channels are **indirect-marketing channels**.

Channel 2 has one intermediary. In consumer markets, this is typically a retailer. If the dairy farmer sells his milk directly to a spaza shop around the corner, he is using this channel arrangement.

The consumer electrical goods market is typical of this arrangement. Producers such as Sony, Panasonic and Canon sell their goods directly to large retailers such as Game, Dion or Hi-Fi Corporation, which then sell the goods to the final consumers.

Channel 3 has two intermediary levels: a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of several producers' goods and then breaks up the bulk deliveries to supply retailers with smaller quantities.

When would the farmer use such a channel arrangement? Can you think of an example?

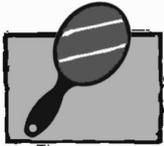
Channel 4 includes an additional intermediary such as an agent/broker or even a franchisee. (We address these topics in more detail later in this study guide.)



1.6 Assessment

The following exercises are good examples of the sort of questions you will likely find in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) *Give a definition of and discuss distribution channels.*
- (2) *Briefly describe the importance of using intermediaries in order to get products from the producers to the consumers.*
- (3) *Mention what the “4 P’s” model of marketing is and discuss the nature of distribution channels.*
- (4) *Discuss the functions of the distribution channel.*
- (5) *Identify and discuss the various distribution channel levels that are available.*



1.7 Reflection

Before you go on to the next study unit, reflect on the following questions:

- *How do you think you will be able to use the information that you have just studied in your current student life or future career?*
- *Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?*
- *How long did it take you to work through this study unit?*
- *Are you still on schedule for the assignments and the examination, in accordance with your study roster?*



1.8 Summary

In this study unit we introduced you to distribution management. Distribution management is a very important part of marketing management and is also known as “place” in the “4 P’s” model of marketing.

By now you should be familiar with all the key concepts of distribution management in this study unit. These include the nature and importance of distribution channels, the functions of the distribution channels and the number of channel levels that are available. Make sure that you are familiar with and are able to clearly differentiate between these concepts before you move on to the next study unit.

In the next study unit we look at the supply chain and the value chain, and how they are connected to the distribution function.



Study unit 2

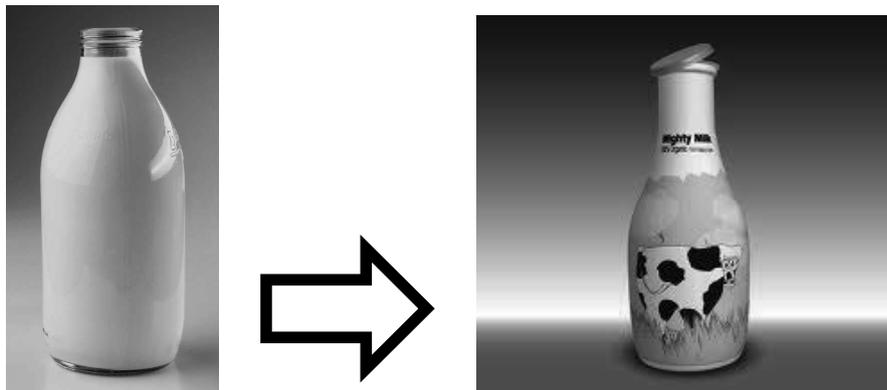
The supply chain and the value chain, and their connection with the distribution function

INTRODUCTION

As you discovered in study unit 1, products have to be moved through a distribution channel to reach us. It is now time to introduce two new concepts: the supply chain and the value chain. Let us look at the example of the dairy farmer again. In order for the milk to move through the distribution channel, a bottling company is needed to bottle the milk, trucks are needed to move the milk, an advertising agency has to brand the milk and a shop has to sell the milk. The supply chain includes **all** of these “suppliers” or service providers, vendors, customers and intermediaries that are involved in the production and movement of the milk until we have consumed it and the bottles have been recycled or discarded. Even the farm worker who milks the cow is part of the supply chain.



While the milk moves along the supply chain, the bottling company may add a special “leak-free” lid to the milk bottle, the truck may have a sterilised fridge to keep bacteria out of the milk, the advertising agency may brand the milk by inserting a special recipe under the label and the shop owner may place the milk in a special fridge that keeps the milk fresh for longer. This means that each supplier has added **value** to the milk in some way before it reaches us. Put briefly, this is what the value chain consists of:



Look carefully at how value has been added to the above milk bottle in the value chain.

OVERVIEW OF THIS STUDY UNIT

In this study unit we discuss the supply and value chains, and how both are connected to the distribution function. We explore typical distribution channels and various trends that impact on distribution channels. In addition, we focus on some of the decisions that influence the distribution structure.

This study unit can be broken down into the following main learning areas on which you have to focus:

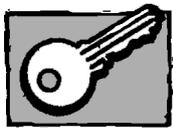
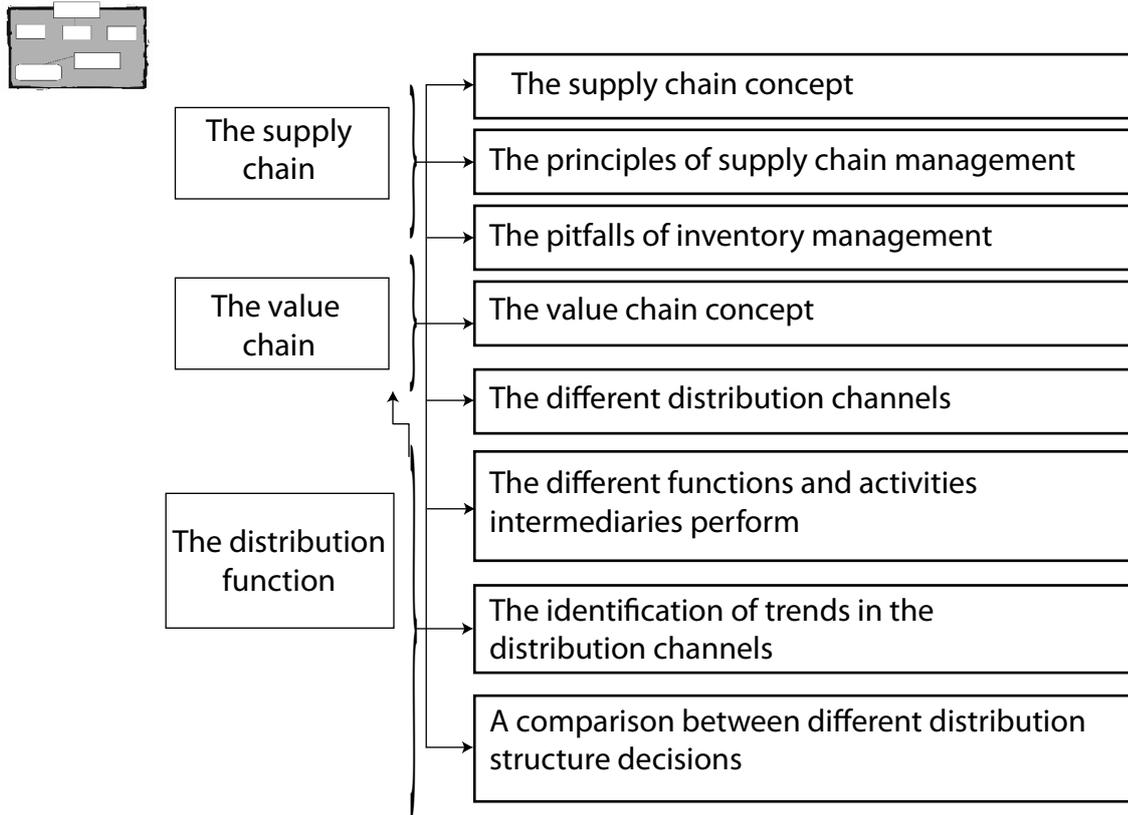
- the definitions and importance of the supply chain and the value chain
- various types of distribution channels
- the different activities intermediaries perform
- identification of trends in distribution
- decisions relating to the distribution structure

Since this is one of the longest study units in your prescribed book, you will need approximately five to six hours to work through this chapter to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 2.1 The supply chain concept
- 2.2 The principles of supply chain management
- 2.3 The pitfalls of inventory management
- 2.4 The value chain concept
- 2.5 The different distribution channels
- 2.6 The different functions and activities intermediaries perform
- 2.7 The identification of trends in the distribution channels
- 2.8 A comparison between different distribution structure decisions
- 2.9 Assessment
- 2.10 Reflection
- 2.11 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

After completing this study unit, you should be able to explain/define the following concepts:

- the supply chain
 - the value chain
 - inventory management
 - distribution channels
 - intermediaries
 - social trends
 - the economic environment
 - supply chain issues
 - decisions relating to the distribution structure
-

2.1 THE SUPPLY CHAIN CONCEPT



(Study this section in the prescribed book.)

As explained in the introduction above, a supply chain is a string of all the different physical, financial and information networks that are involved in the movement of materials through the distribution channel. It is important to understand that the supply chain starts at the very beginning, right from where the raw materials originate, and only ends once the product has been discarded or recycled. This means that all the services, repair work, recall and withdrawal of a product are processes that fall under the supply chain. The supply chain literally includes all the functions from the time when the product is “born” until it “dies”.

This obviously means that many **important decisions** are made within the supply chain.

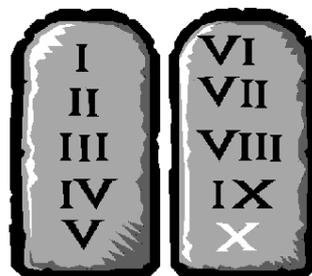
Study the **six primary decisions** that are made within the supply chain which are listed in your prescribed book, and make sure that you can list and explain them with practical examples where appropriate.

2.2 THE PRINCIPLES OF SUPPLY CHAIN MANAGEMENT



(Study this section in the prescribed book.)

What does the word “principle” mean to you? A principle is an attitude or belief that governs rules or ethical codes. Supply chain management is governed by certain principles that have to be followed in order for the supply chain to achieve the best results.



Let us look at each of these principles individually. Study the principles that are listed in your prescribed book and ensure that you are able to explain each principle clearly. Use the examples given below to supplement your knowledge and ensure that you can provide practical examples of each principle.

Communication. A clever retailer will ensure that information flows easily throughout the supply chain and that point of sale data is shared. Example: Pick n Pay links their till points via a computer system to their suppliers’ systems. Pick n Pay also has an online shopping service that you can link to via your computer when you need certain items.

Visit pnponline.co.za to find out more about this system.

- *Flexibility, inventories and customer service.* The end result of a successful supply chain is to have satisfied customers. (Make sure that you study this section in your prescribed book to ensure that you can discuss the three bases for good customer service.)
- *Decision making.* Make sure that you understand the differences between decisions that are made at a strategic level, a tactical level and an operational level.
- *Metrics and data collection.* A metric is a benchmark or a standard of measurement; a metric can only be set after data has been collected.
- *Quality.* What does quality mean to you? Write down a few terms that define the concept for you when you look at clothing brands in a department store. Now look at the various aspects of quality that are listed in your prescribed book and compare your answers.

Make sure that you can discuss the five principles of supply chain management before you move on to the next section. Here is an activity to help you.



Activity 2.1

Think about the job of a supply chain manager. It is her job to meet and exceed customer expectations by delivering quality products. What criteria will the supply chain manager use to ensure that her customers are kept happy? (Think about what is important to you as a customer when it comes to quality in the supply chain.)



Feedback

To compete on a basis of quality, a firm must focus on four quality criteria dimensions: delivery, flexibility, cost and after sales support. These four criteria are discussed in detail in your prescribed book; ensure that you are able to discuss them as quality dimensions.

2.3 THE PITFALLS OF INVENTORY MANAGEMENT



(Study this section in the prescribed book.)

If we look at the word “pitfall”, we may imagine ourselves falling into a deep and dark pit. While this is not exactly what is meant by the pitfalls of inventory management, things can go badly wrong and the management process can fail. Ensure that you are able to identify the pitfalls of inventory management after you have worked through this section.



Of course, like any business function, things can often go wrong. What is important here is that we learn from our mistakes and avoid making the same mistakes in future. The various pitfalls of inventory management have been identified through experience. These are summarised for you in a table in your prescribed book. Study the table and then make sure that you can match the symptoms in the second column to the pitfalls in the first column.

2.4 THE VALUE CHAIN CONCEPT



(Study this section in the prescribed book.)

A value chain is a chain of activities for a company that operates in a specific industry. Products pass through all the activities of the chain in order and during each activity, the product gains a certain value. The example of the milk bottle that we used illustrates how value can be added to a product as it moves through this chain.

A large number of a manufacturer's activities form part of the value chain. These are summarised for you in your prescribed book. Study the nine value-creating stages, which consist of five primary activities and four support activities, and then close your book and try to remember them.

How many of the stages and activities could you remember?

Ensure that you can recall all the activities that form part of the value chain. Use a diagram to summarise this section.



Activity 2.2

Visit your local spaza shop or café and discuss distribution issues with the owner. Find out to which products they add value in the value chain and how they add value.



Feedback

The shop owner may have told you how he helps the delivery trucks of groceries to ensure certain products stay fresh; this is adding value (in this case, to groceries). Many café owners

package certain items together in a “lucky packet” or fruit in a “mixed fruit” container before they are sold; these items are sold at a discount and value is thus added to the products. The shop owner may also have mentioned various types of fridges he uses to add value to products or certain displays he uses. Next, we discuss the different distribution channels that are available.

2.5 THE DIFFERENT DISTRIBUTION CHANNELS



(Study this section in the prescribed book.)

Before you study this section, go back to study unit 1 and take another look at the distribution channel that is **illustrated** in section 1.1. This is an example of a traditional distribution channel where a product moves from a manufacturer to a wholesaler to a retailer and then to a consumer. However, many other distribution channel options exist. Search for the words “distribution channels” in Google images; you will be surprised at the number of images and illustrated channels that come up on your computer screen.



Now think about the products of the Coca-Cola Company. The Coca-Cola Company is the world’s largest beverage company and operates in over 200 countries in the world. This must be a very large distribution system to manage. However, did you know that the Coca-Cola Company only does part of this work? It works closely with over 300 bottling partners around the world. Visit the website http://www.thecoca-colacompany.com/ourcompany/the_cocacola_system.html to learn more about Coca-Cola’s intricate distribution system.

The Coca-Cola Company is an example of an international distribution channel. Refer to your prescribed book for an illustration of this type of distribution channel.

Now think about the Caterpillar machinery that is used on large building sites.



Compactors



Wheel Loader



Off Highway Trucks

It is just as important for Barloworld Equipment to distribute this machinery to its clients on time and in good condition. This is an example of an industrial or business-to-business distribution channel. Refer to your prescribed book for an illustration of this type of distribution channel, and then visit www.barloworld-equipment.com to learn more about Barloworld's high quality and service-orientated distribution channels.

Distribution channels can combine and become quite complex. In your prescribed book, read about the various distribution channels that are available to ensure that you are able to differentiate between various complex distribution channels.

Services are unique when it comes to distribution channels. Make sure that you are able to distinguish between the four factors that make services different from the products which are listed in your prescribed book before you move on to the next section.

2.6 THE DIFFERENT FUNCTIONS AND ACTIVITIES PERFORMED BY INTERMEDIARIES



(Study this section in the prescribed book.)

Do you remember the definition of an intermediary? If not, refer back to section 1.5 of study unit 1. These intermediaries play various roles throughout the distribution channel; in fact, without intermediaries distribution channels would fail. Think about the Coca-Cola Company – without their bottling partners, their products would never reach us. Study the roles of intermediaries in your prescribed book and make sure that you can distinguish between all the concepts which are listed below:

- standardisation
- accumulation
- allocation
- assortment
- closing gaps and providing utility
- transactional activities
- physical activities
- facilitating activities
- function service providers

- support specialists
- efficiency of exchange

Before you move on to the next section, ensure that you understand and are able to calculate the efficiency of exchange ratio.

2.7 THE IDENTIFICATION OF TRENDS IN THE DISTRIBUTION CHANNELS



(Study this section in the prescribed book.)

Just as trends in clothing styles come and go, so too do trends in distribution channels. These trends have to be analysed continuously. Distribution trends include:

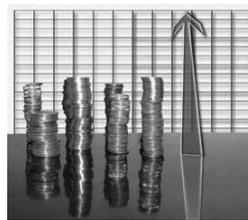
Social trends



Economical trends



Competitive trends



Supply chain issues



Study these trends in your prescribed book. Now take a moment to think about how each of these trends can influence the distribution function of the dairy farmer we discussed at the beginning of this study unit. Can you think of an example for each trend?

After you have studied this section, make sure that you can list and briefly explain each of the distribution trends. Also make sure that you can distinguish between the terms "supplier power", "buyer power" and "competitive rivalry".

2.8 A COMPARISON BETWEEN DIFFERENT DISTRIBUTION STRUCTURE DECISIONS



(Study this section in the prescribed book.)

In order to achieve profitability and to ensure that the supply chain is successful, all the intermediaries in the supply chain must reach certain decisions together. It is important that you are able to explain each of these decisions. Let us look at some practical examples of each.

Tiger Brands



- *Intensive, selective or exclusive distribution decisions.* Tiger Brands is a company that manufactures various fast-moving consumable goods. They may choose to distribute their convenience products, such as snacks and sweets, **intensively** to ensure that these products reach the widest variety of consumers. Tiger Brands also produces baby goods and foods; these products will probably follow a more **selective** distribution channel since they will only be made available in stores that stock baby products. Tiger Brands does not have a brand that will be distributed exclusively; this is usually done by companies with specialised products that have an enhanced image such as Harley Davidson motorbikes that are sold exclusively at Harley Davidson outlets.



PVCORALL.COM

- *Cost leadership, differentiation and focus strategy.* Look at the example of stationery and pens. Bic pens sell low cost products to the mass market at the best price; this means that they are using a **cost leadership strategy**. Parker pens, on the other hand, have been designed for performance and quality and are distributed by using a **differentiation strategy**. Finally, if there was a company that specifically designed pens for people who are left-handed, it would have used a **focus strategy**.
- *Innovation structure.* Manufacturers have to adapt to constant changes in the market place and have to continue to be innovative in order to stay competitive in this ever-changing environment. Fruit and Veg City is a good example of this because they constantly add new products and services to their value chain in order to meet demand; they are no longer simply a fruit and vegetable grocer.

- *Vertical marketing system arrangements.* A vertical marketing system is an integrated system where all the intermediaries work towards the same goal. There are various types of vertical marketing systems. Read about these in your prescribed book and see if you can identify an additional example for each arrangement in addition to those that are provided in your prescribed book.



2.9 Assessment

The following exercises are good examples of the sort of questions you will likely encounter in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) *Name and briefly discuss supply chain management.*
- (2) *List and discuss the five principles of supply chain management.*
- (3) *Discuss what can happen to management due to inventory management pitfalls.*
- (4) *Illustrate the value chain, including both the primary activities and the support activities of the value chain. Describe the outline of a value chain for each of the following: flowers, diamonds, holiday accommodation and a gym.*
- (5) *Name and briefly discuss the three typical distribution channels.*
- (6) *Calculate the efficiency of exchange if there are 10 buyers and 30 sellers in a market.*
- (7) *If you were the manufacturer of the following products, what distribution channel would you choose and why?*
 - *deodorant*
 - *4 x 4 vehicles*
 - *soccer balls*
- (8) *Name and briefly discuss the four decisions that all the intermediaries in a supply chain must reach in order to ensure the success of the supply chain.*



2.10 Reflection

Before you go on to the next study unit, reflect on the following questions:

- *How do you think you will be able to use the information that you have just studied in your current student life or future career?*
- *Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?*
- *How long did it take you to work through this study unit?*
- *Are you still on schedule for the assignments and examination, in accordance with your study roster?*



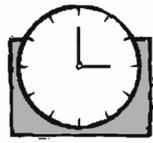
2.11 Summary

By now you should be familiar with all the key concepts in this study unit and be able to differentiate between and discuss the supply chain and the value chain concepts. You should also be able to describe the principles of supply chain management, such as communication and quality. Furthermore, you should be able to identify and discuss the pitfalls of inventory management, including their symptoms.

In this study unit we differentiated between various complex distribution channel systems. You should be able to identify these systems and explain them by means of practical examples. Make sure that you can discuss the different functions and activities of intermediaries. Finally, we identified trends in the

distribution channel. Make sure that you are able to compare the different distribution structure decisions.

The next study unit deals with distribution from a South African perspective.



Study unit 3

The role of price in the marketing mix

INTRODUCTION

Where else in the world will you find a charismatic street vendor who sells clothing hangers, avocados and a car window washing service at the same time on one street corner just metres from your home? We refer to South Africans as the rainbow nation because of their cultural diversity. In the same way as South Africa is a unique country with its own unique history and culture, our distribution channel structures are unique because of how they have evolved in South African history.



As you discovered in study unit 1, products have to move through a distribution channel to reach the final consumer and this distribution channel consists of various channel participants. In South Africa we have unique channel participants that contribute to our channel structure. In this study unit we look at these channel participants from a uniquely South African perspective.

OVERVIEW OF THIS STUDY UNIT

In this study unit we look at how distribution channels in South Africa differ from distribution channels in the rest of the world. We start by looking at the evolution of South African distribution channels. We then discuss distribution channel trends in South Africa and explore the position of South African wholesalers and retailers. This study unit ends with a discussion on the different franchise systems that are available.

This study unit can be broken down into the following main learning areas on which you have to focus:

- the evolution of South African distribution channels
- the various distribution channel participants in South Africa
- the evolution of wholesalers in South Africa

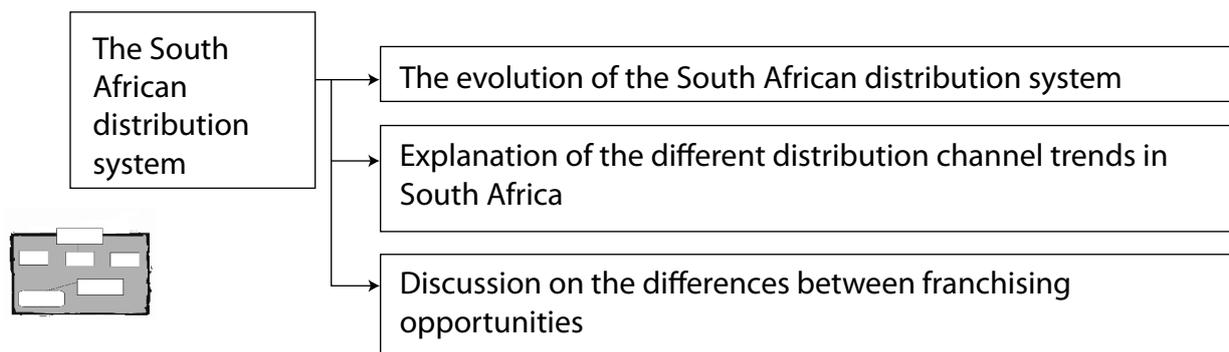
- the importance of the retailer in the South African distribution channel
- the difference between various franchise opportunities

You will need approximately two to three hours to work through this study unit to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 3.1 The evolution of the South African distribution system
- 3.2 Explanation of the different distribution channel trends in South Africa
- 3.3 Discussion on the differences between franchising opportunities
- 3.4 Assessment
- 3.5 Reflection
- 3.6 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

After you have completed this study unit, you should be able to explain the following concepts:

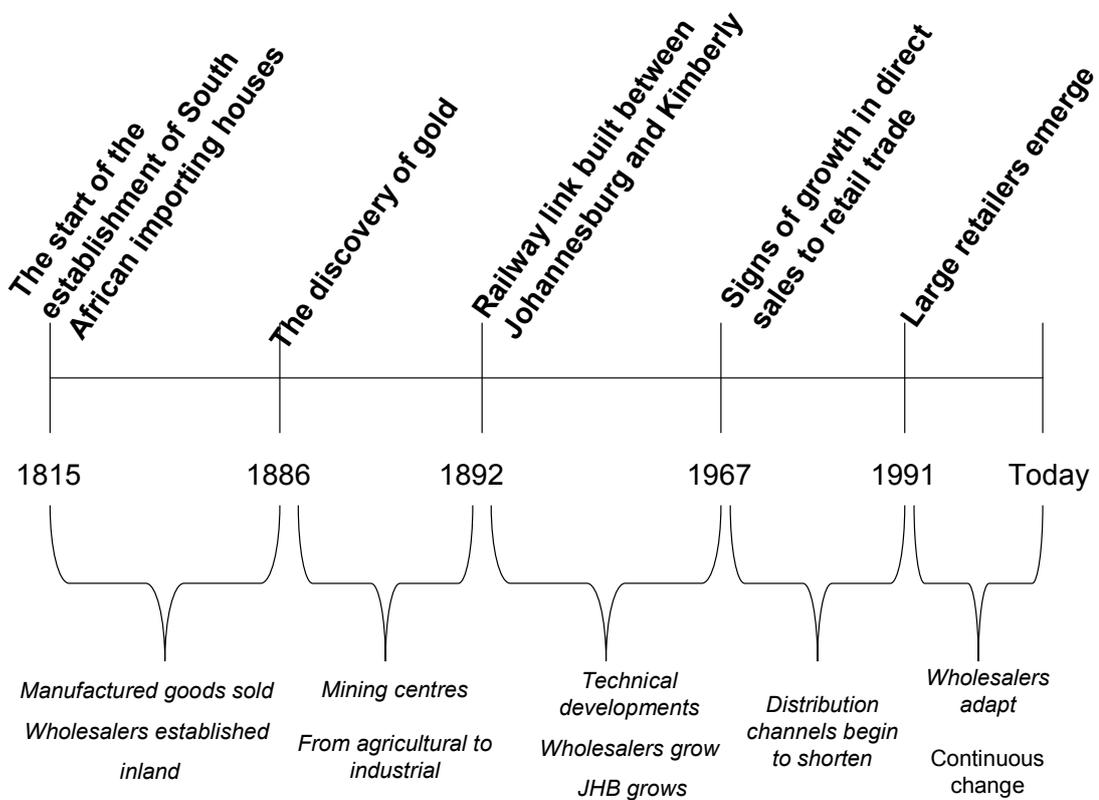
- the South African distribution system
 - wholesalers
 - retailers
 - cash and carry wholesalers
 - franchising
 - franchisee
 - franchisor
 - product and trade-name franchising
 - business format franchising
-

3.1 THE EVOLUTION OF THE SOUTH AFRICAN DISTRIBUTION SYSTEM



(Study this section in the prescribed book.)

South African distribution channels have undergone many changes since they began to develop in the early 19th century. Your prescribed book contains a detailed summary of the flow of this development.. Read this section in your prescribed book and you will discover a lot about South Africa’s unique history. Once you have read these pages, look at the diagram below. The diagram summarises the evolution of the South African distribution system for you in a timeline.



Refer to your prescribed book and use the above diagram as a guideline to ensure that you are able to discuss the evolution of the South African distribution system by highlighting significant milestones in this evolution.

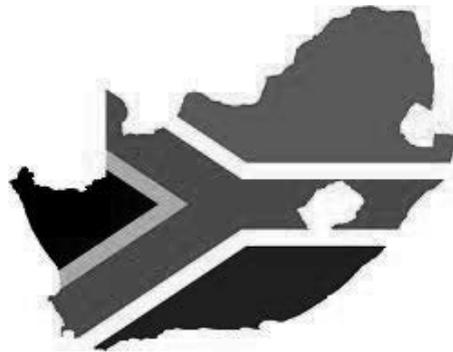
3.2 EXPLANATION OF THE DIFFERENT DISTRIBUTION CHANNEL TRENDS IN SOUTH AFRICA



(Study this section in the prescribed book.)

As you discovered in study unit 2, various trends can influence distribution channels. Do you recall these trends? Revisit section 2.7 of study unit 2 to refresh your memory.

In this section we look at distribution channel trends that are specific to South Africa.



Study this section in your prescribed book and ensure that you are able to explain the following key aspects:

- typical distribution trends in developing countries
- the influence of modern Western distribution institutions on South African distribution channels
- the competition that exists between retailers and wholesalers in South Africa

We will now summarise the position of **wholesalers** and **retailers** in South Africa so that you can have a clearer understanding of how these two channel participants fit into the South African distribution channel.

3.2.1 Wholesalers

Wholesalers play a very significant role in the distribution channels of developing countries. Due to the small size of our manufacturing operations and the number of small retailers in operation, wholesalers in South Africa perform many important tasks (such as collecting produce, keeping stock, breaking up bulk quantities and carrying much of the financial burden).

The extent of the influence that the wholesaler has on a country's distribution channel is normally an indication of the country's economic stage of development.

Take some time to think of the largest wholesalers in South Africa and see how many examples you can come up with.

Who did you think of? Was it difficult to think of many examples? This may be because “true” wholesalers do not deal with the final consumer. Perhaps you thought of examples such as Makro and Trade Centre?



Did you know that Marko and Trade Centre are actually **cash and carry wholesalers** that fall under the portfolio of Massmart and Metcash respectively?

Metcash South Africa and Massmart are the two largest wholesalers in South Africa. They have secured these positions by developing cash and carry outlets throughout Southern Africa.

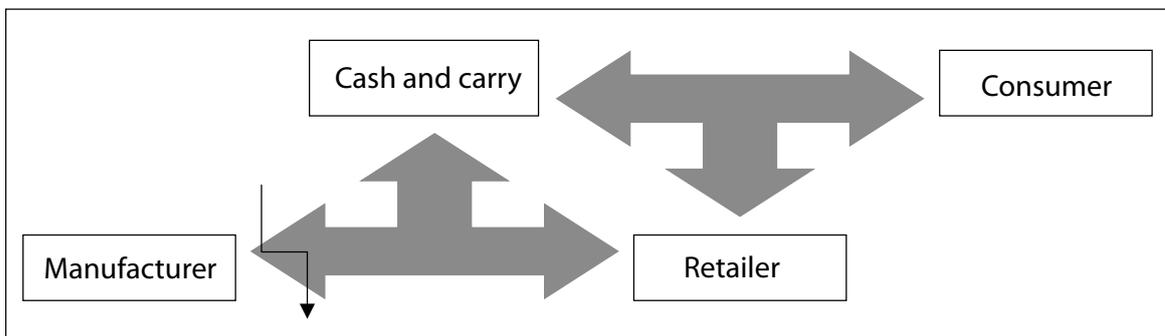


Visit www.metcash.co.za and massmart.co.za to discover more about how these two large wholesale groups work extensively throughout the South African distribution system.

- **Cash and carry wholesalers**

Let us now take a closer look at cash and carry wholesalers in South Africa. (Remember, these include examples such as Makro, Trade Centre and Jumbo.) The cash and carry wholesaler performs essential marketing functions between the manufacturer and the retailer, thus providing a link between the two. The retailer, in turn, provides the link between the cash and carry wholesaler and the final consumer.

These relationships can be presented in a diagram as follows:



Can you see from the diagram above that **the retailer is the ultimate target market of the cash and carry wholesaler**? Note that they each have two connection points that join them together.

After you have worked through this section on wholesalers, ensure that you are able to define and distinguish between wholesalers and cash and carry wholesalers. You must also be able to define the relationship between manufacturers, wholesalers, retailers and the final consumer.

It is important to understand that the cash and carry wholesale function has changed considerably over the last 45 years. Read this section in your prescribed book to discover more about this evolution.



Activity 3.1

Summarise the evolution of cash and carry wholesalers in South Africa over the last 45 years in a timeline (such as the one in section 3.1 above for the evolution of **distribution channels** in South Africa).



Feedback

Were you able to summarise all the information in one timeline? Review the information in your prescribed book to ensure that you have made a concise summary. Timeline summaries such as these will help you to remember large quantities of work easier, so see you if you can apply these principles to other chapters in this module.

3.2.2 Retailers

Let us now look at the position of retailers in South Africa. Just as you did with wholesalers above, try and think of the largest retailers in South Africa. (Refer to your prescribed book to ensure that you are able to clearly distinguish between wholesalers and retailers.)

Was it easier to come up with examples? Here are a few retailers you may have thought of:



Did you know that the above four retailers are responsible for 63% of all food purchases in retail in South Africa? What about the smaller retailers – were you able to think of some examples of these?

Smaller retailers such as spaza shops and fresh food stores are an important component of retailing in South Africa due to our limited income, preference for fresh food and need for convenience.

Before you move on to the next section, ensure that you are able to provide practical examples of both retailers and wholesalers in the South African distribution system. Also make sure that you can discuss the wholesale and retail structure of the South African distribution system before you move on to the next section.

3.3 DISCUSSION ON THE DIFFERENCES BETWEEN FRANCHISING OPPORTUNITIES



(Study this section in the prescribed book.)

When you think of the word “franchise”, do you immediately think of large food chains such as Steers, Debonairs, Wimpy and KFC?



It is correct to think that the general foods category is the largest franchise category in South Africa. However, franchising also covers a much larger scale of business, including real estate services, cellular and internet services, retail services, education and even party planning.



Convert it:



So what exactly is a franchise? Ensure that you are able to define this.

A franchise is a “business marriage” between an existing and established business (the franchisor) and an independent person (the franchisee).

By now you might be asking: So what does each party gain from this marriage? Ensure that you are able to discuss the benefits of a franchise for both the franchisee and the franchisor.

- The franchisee gains knowledge, a brand identity, and a proven business model and distribution system.
- The franchisor gains the expansion of the brand name and business.
- Both parties benefit financially in the long term.

Franchising provides entrepreneurs with a much less risky option to start their own business.

There are a number of different franchising formats that are available. Your prescribed book summarises the two most familiar types: (1) product and trade-name franchising and (2) business format franchising. Study these two types of franchising formats and ensure that you can differentiate between the two, then see if you are able to complete the activity below.



Activity 3.2

After you have studied the two types of franchising formats that are listed in your prescribed book, try and come up with some South African examples for each format. Visit www.fasa.co.za (the Franchise Association of South Africa) to help you in your search. Also try to find examples of franchises outside the general foods category.

Feedback



Were you able to list some examples of each type of franchising? Here are a few more South African examples that you can add to your lists (ensure that you are able to provide South African examples of various franchising options):

Product and trade-name franchising: Sasol, BP Southern Africa, McCarthy Toyota and Sureslim Wellness Products



Business format franchising: News Café, Stones, Multiserve, Juicy Lucy, Postnet, The Drain Surgeon and Cardies



This is a very interesting section of this study unit and an important part of South Africa's distribution system. Read this section in your prescribed book to ensure that you are able to define franchising and its benefits, then visit www.franchisefinder.co.za to view a list of available franchises in South Africa with purchase fees ranging from below R10 000 to more than R1 000 000.

Continue to browse the website www.fasa.co.za to get a better understanding of how the franchise industry is represented in South Africa.

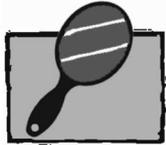


3.4 Assessment

The following exercises are good examples of the sort of questions you will likely find in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) Provide a concise summary of the evolution of the distribution system in South Africa.*
- (2) Distinguish between wholesalers and cash and carry wholesalers within the South African distribution system.*
- (3) Compare small and large retailers in the South African distribution system.*

- (4) Explain the franchising concept and distinguish between the key players in these operations.
- (5) Compare the benefits and advantages of the franchisee and the franchisor in a franchising business agreement. Provide your own perspective on which party benefits the most from such an agreement.
- (6) Name five examples of South African franchises in the general foods category as well as in other business categories in South Africa.



3.5 Reflection

Before you go on to the next study unit, reflect on the following questions:

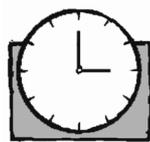
- How do you think you will be able to use the information that you have just studied in your current student life or future career?
- Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?
- How long did it take you to work through this module?
- Are you still on schedule for the assignments and examinations, in accordance with your study roster?



3.6 Summary

By now you should be familiar with the participants in the South African distribution channel. In this study unit we focussed on the evolution of wholesalers and retailers in South Africa. You should be able to distinguish between wholesalers, cash and carry wholesalers, and retailers – specifically in the South African market. We looked at the evolution of distribution in South Africa and the roles of the cash and carry wholesaler. We ended this study unit by looking at franchising structures in South Africa. Make sure that you can clearly define franchising and discuss its benefits for both the franchisee and the franchisor.

In the next study unit, we look at channel design and the selection of channel members.



Topic 2

CHANNEL DESIGN

AIM

The aim of this topic is to help you to gain an understanding of how distribution channels are designed and of the members involved.



Learning outcomes

On completion of this topic, you should be able to

- discuss the steps of designing a distribution channel
- select specific intermediaries for a distribution channel

TOPIC CONTENT:

Study unit 4: Channel design and the selection of channel members

Study unit 4

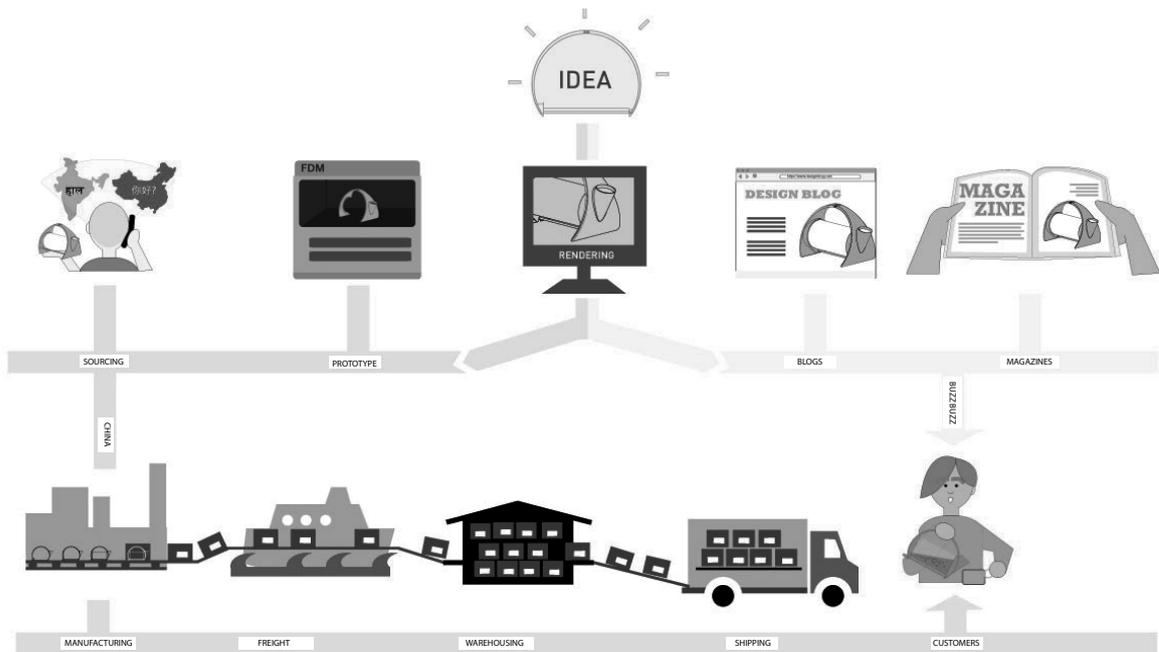
Channel design and the selection of channel members

INTRODUCTION

Imagine that you have developed a new and exciting product that can make you very rich due to its originality. You spent money on research and manufacturing, and you are certain that the product is needed in the market place.



Imagine now that you are unable to select the **correct distribution channel** design and your new and exciting product cannot reach the final consumer. All the money that you have spent could be lost. The design of a channel structure and the selection of the correct channel members are therefore an important decision-making process that can result in the success or failure of the product as a whole.



OVERVIEW OF THIS STUDY UNIT

In this study unit we look at channel design and the selection of the correct channel members. The entire study unit focuses on the six steps of designing a distribution channel. We look at each of these six steps in detail and investigate various reasons for the modification of existing channel structures.

This study unit can be broken down into the following main learning areas on which you have to focus:

- the steps of designing a distribution channel
- designing a distribution channel for consumer and industrial products
- the techniques that are used to select the best distribution channel options
- the reasons why channel modification occurs

You will need approximately three hours to work through this study unit to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

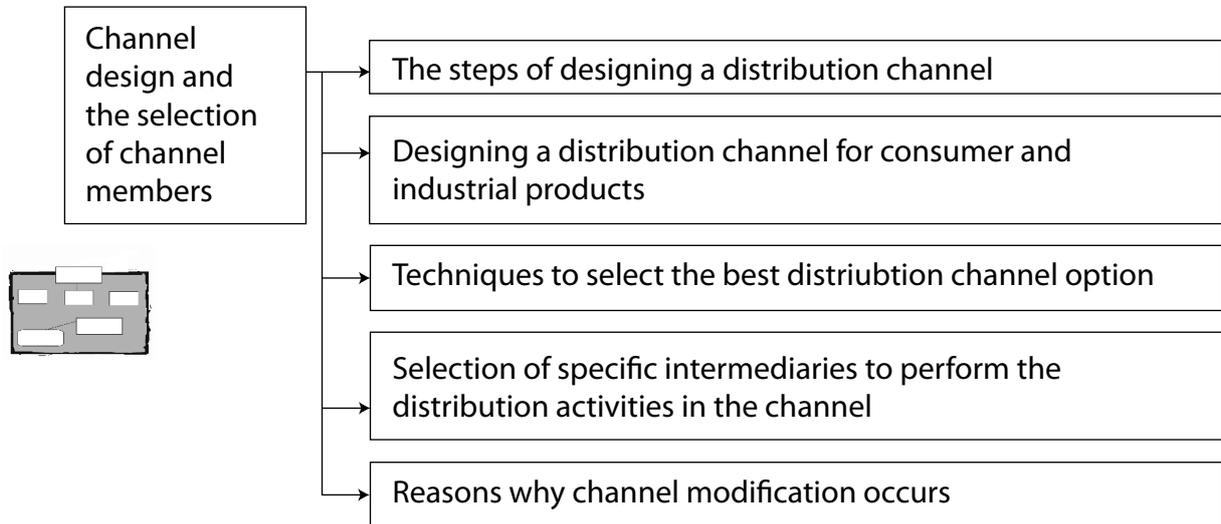
- 4.1 The steps of designing a distribution channel
- 4.2 Designing a distribution channel for consumer and industrial products
- 4.3 Techniques to select the best distribution channel option
- 4.4 Selection of specific intermediaries to perform the distribution activities in the channel
- 4.5 Reasons why channel modification occurs

4.6 Assessment

4.7 Reflection

4.8 Summary

This study unit will unfold as follows:



Key concepts

After you have worked through this chapter, you should be able to explain/define the following concepts:

- channel design
 - channel objectives
 - distribution activities
 - distribution channel alternatives
 - multichannel distribution
 - market considerations
 - product considerations
 - organisation considerations
 - criteria for prospective intermediaries
 - modifying channel design
-

4.1 THE STEPS OF DESIGNING A DISTRIBUTION CHANNEL



(Study this section in the prescribed book.)

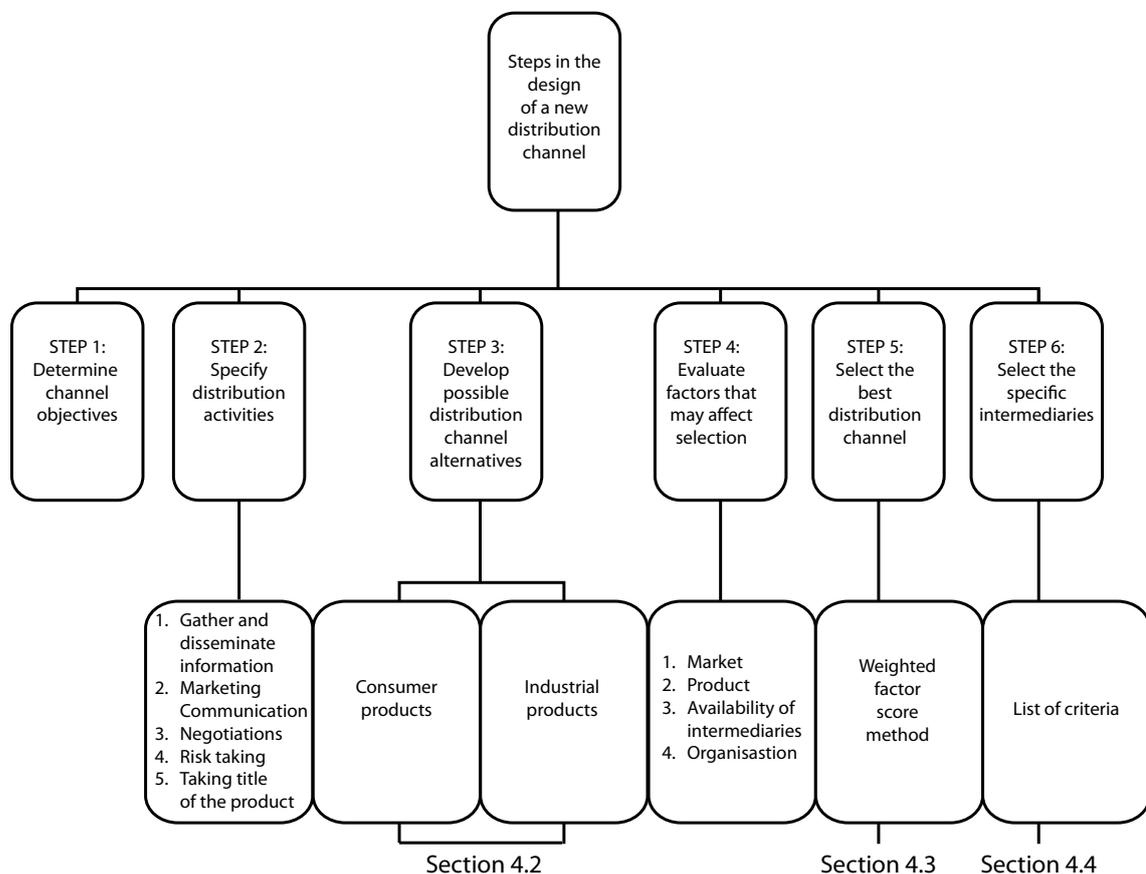
The design of a new distribution channel is a strategic process that requires long-term commitment from all the channel members. The selection of an effective distribution

channel can provide a sustainable competitive advantage (SCA) for all the members of the channel.

It is sometimes necessary to change an existing distribution channel. Because this can be an expensive exercise, such changes should be limited and should be addressed via a strategic process.

There are six steps that can be used to develop a distribution channel. These six steps form the basis of most of this chapter; it is therefore important to study them in detail to ensure that you understand this study unit correctly and that you are able to discuss the six steps in detail.

The diagram below gives an outline of this study unit by illustrating the six steps of designing a distribution channel. It also provides an overview of how the rest of this study unit will unfold. We will look at each of these important steps individually and in detail to ensure that you are aware of what is required from you under each step/section.



Let us look at each of these steps individually:

STEP 1: Determine the channel objectives

The design of a distribution channel is directly influenced by the overall marketing objectives and strategy that have been formulated by the organisation's top management.

For example, if the marketing strategy of an artist indicates that her paintings should be exclusive and should be sold only in top retail shopping centres, this will obviously influence the distribution channel that will be used to distribute her art.



Channel objectives must be measurable and are usually stated in terms of sales volume, profitability, market share, number of outlets, geographic area and distribution service levels. Read the example under step 1 in your prescribed book to ensure that you can describe how marketing objectives and overall strategy influence the channel objectives of a new distribution system.

STEP 2: Specify the distribution activities

Once specific channel objectives have been set, it is necessary to determine what kind of activities intermediaries will perform to ensure that the product will sell successfully. These activities will differ depending on the product and channel objectives. Study the table in your prescribed book in which the generic distribution activities that are performed in the distribution channel are listed.



Let us look again at the example of the artist in step 1 above. The artist indicated that her paintings should be sold only in top retail shopping centres. This means that she will be using reseller intermediaries since her paintings will be sold in a retail environment.

Ensure that you can differentiate between resellers and agents as discussed in your prescribed book before you move on to the next step.

STEP 3: Develop possible distribution channel alternatives

Once the channel activities have been set, it is necessary that the manufacturer has alternatives in place that can handle these activities. As indicated in the diagram above (summarising the six steps in the design of a distribution channel), this step is discussed in more detail in section 4.2 of this study unit.



Before you move on to the next step, let us look at the example of the artist again. A possible distribution channel alternative for her could be using an agent to sell her paintings to retailers for resale to their customers. Another alternative that she could consider is to sell her paintings directly to the customers; however, this option may not meet her original marketing strategy as indicated in step 1.

STEP 4: Evaluate the factors that may affect the selection of the distribution channel

The first three steps above concern aspects that the manufacturer of a product may have control over. It is, however, also very important to consider all the other factors that may influence the distribution channel before the correct choices can be made.

The most important factors that may influence your selection of channel members are listed below:

- market factors
- product factors
- the availability of intermediaries
- organisation considerations

It is important that you are able to identify and discuss these factors. Please study the relevant figures in your prescribed book. Also read the exhibits in the prescribed book to get some practical knowledge of how these factors have affected distribution selections of real companies in South Africa.

STEP 5: Select the best distribution channel

To choose the best distribution channel is not always easy, even after steps 1 to 4 have been carefully considered. This step is discussed in more detail in section 4.3 of this study unit.

STEP 6: Select the specific intermediaries

After all the above steps have been strategically considered, there is one final step in the selection process that requires manufacturers to choose the **actual intermediaries** that will form part of the distribution channel.



With regard to our artist, she will now choose **specific outlets or galleries** to sell her paintings. If she has decided to use agent intermediaries to help her, she will now decide which specific agent/s she will use.

This step is discussed in more detail in section 4.4 of this study unit.

Now that we have an overview of the six steps of the process of designing a distribution channel, we will look at steps 3, 5 and 6 in more detail to ensure that you gain the required knowledge from this study unit.

4.2 DESIGNING A DISTRIBUTION CHANNEL FOR CONSUMER AND INDUSTRIAL PRODUCTS



(Study this section in the prescribed book.)

(This section refers to step 3 of the distribution channel design process.)

As discussed above, once channel activities have been set, it is necessary that the manufacturer has alternatives in place that can handle these activities.

This is also the point where the manufacturer has to decide which channel structures have to be developed. In this section, it is important that you understand the two important considerations that play a role in this decision: the number of levels within a distribution channel and the number of intermediaries that will be used at each level.

Take a look at the figures in your prescribed book to get an overview of the possible levels in distribution channels for **consumer products** and for **industrial products**. Make sure that you understand and can **differentiate** between these levels before you move on to the next section.

Also study the figure which illustrates the number of intermediaries that are used in the retail sector. Make sure that you can identify and discuss the different types of intermediaries that exist at each level before you move on to the next section.

4.3 TECHNIQUES TO SELECT THE BEST DISTRIBUTION CHANNEL OPTION



(Study this section in the prescribed book.)

(This section refers to step 5 of the distribution channel design process.)

To choose the best distribution option can be a complicated process. You should therefore be able to discuss the approaches that are used to tackle this problem.

Five characteristics of products that can assist in selecting the best distribution channel option are identified in the prescribed book:

- (1) the replacement rate of the product
- (2) the gross margin on the product
- (3) the adjustments that are needed to sell the product
- (4) the time of consumption (how long it takes the customer to consume the product)
- (5) the searching time (how long it takes the customer to find and buy the product)

Other techniques that are used to select the correct channel include the financial approach, the cost analysis approach, the management science approach and the judgemental-heuristic approach.

In this section we look at the judgemental-heuristic approach in more detail. The judgemental-heuristic approach includes the weighted factor score method. Study the four steps of this method in your prescribed book and then read the example on the same page to ensure that you understand this method and are able to discuss how it is used.

4.4 SELECTION OF SPECIFIC INTERMEDIARIES TO PERFORM THE DISTRIBUTION ACTIVITIES IN THE CHANNEL



(Study this section in the prescribed book.)

(This section refers to step 6 of the distribution channel design process.)

In this step the manufacturers have to choose the actual intermediaries that they will use in the new distribution channel.

We will use a practical example to explain how this works: Amalgamated Appliance Holdings is the manufacturer of Salton kitchen appliances such as kettles, toasters and general kitchenware.



If Amalgamated Appliance Holdings chooses a one-level distribution channel option (from manufacturer to retailer to consumer), they will look for **specific retailers** to distribute their products. Possible options include Boardmans, DionWired or smaller outlets such as Kitchen Passion.



Below is a list of criteria that Amalgamated Appliance Holdings can use to evaluate the retailers:

1. The financial position of the intermediary – Which of the above retailers will best be able to honour their financial obligations?
2. Sales capacity – Which of the above retailers has the best sales capacity?

3. Product lines carried – What products do the above retailers already stock?
4. Reputation – Which of the above retailers has the best standing in the market place?
5. Market coverage – Which of the above retailers has the best/most coverage in order to reach the correct target market that has been identified for the Salton products?
6. Strength of management – Which of the above retailers has the best management expertise?
7. Attitude – How aggressive will each of the retailers be in ensuring successful sales of the Salton products?

Note that Amalgamated Appliance Holdings may choose more than one retailer to sell the Salton products. Their final choice will also depend on the original marketing objectives of the company as discussed in step 1 of the distribution channel selection process. Ensure that you are able to discuss the criteria that are used to evaluate retailers before you move on to the next section.

4.5 REASONS WHY CHANNEL MODIFICATION OCCURS



(Study this section in the prescribed book.)

To develop or change an existing distribution channel is an expensive exercise and should be avoided if it is not necessary. However, sometimes, due to external factors, existing channels have to be changed or modified. Your prescribed book contains three reasons why existing distribution channels may have to change. Make sure that you are able to identify and discuss them.

- (1) *Changing consumer needs*, for example the need for internet search engines has only existed in the last 15 years. Consumers now search for products both on the internet and in stores.



- (2) *New competition*, for example the Gautrain has added new competition in the transport industry. Faster trains such as this may also introduce new and faster means of transport in the distribution system.



- (3) *New distribution alternatives*, for example the increase in the use of hybrid distribution channels has influenced distribution strategies. (In hybrid channels more than one distribution channel are used to reach the target market.)

Study this section in your prescribed book to ensure that you are able to discuss these factors. Can you think of any other reasons that may require manufacturers to re-examine their distribution channels? Perhaps the introduction of new social networking platforms and technologies may necessitate changes in distribution structures?



4.6 Assessment

The following questions are good examples of the sort of questions you will likely get in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) *Discuss the importance of the correct choice of channel design and channel intermediaries (members).*
- (2) *Describe the six steps of the process to design a new distribution channel.*
- (3) *Briefly discuss the two considerations that play a role in deciding on the best channel structure to develop.*
- (4) *Briefly discuss the different approaches for selecting the best channel option.*
- (5) *Elaborate on the reasons why channel modification occurs.*
- (6) *Work through the weighted factor score method in your prescribed book. Then identify the decision factors which were most important in the selection of choosing this distribution channel.*



4.7 Reflection

Before you go on to the next study unit, reflect on the following questions:

- *How do you think you will be able to use the information that you have just studied in your current student life or future career?*
- *Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in the study guide?*
- *How long did it take you to work through this study unit?*
- *Are you still on schedule for the assignments and examination, in accordance with your study roster?*

4.8 Summary



To reiterate: The design of a channel structure and the selection of the correct channel members are an important decision-making process that can result in the success or failure of the product as a whole. The design of a new distribution channel is a strategic process that requires long-term commitment from all the channel members. The selection of an effective distribution channel can provide a sustainable competitive advantage for all the members of the channel.

This study unit has been structured around the six steps of developing a distribution channel. These steps are: determining the channel objectives; specifying the distribution activities; developing possible distribution channel alternatives; evaluating the factors that affect the selection of channel intermediaries; selecting the best distribution channel options; and, finally, selecting the specific intermediaries. Ensure that you are able to identify and discuss the important factors under each of these six steps.

Due to external factors, it is sometimes necessary to change or modify existing channels. This study unit concluded with a look at various reasons for channel modification, such as changing consumer needs, new competition or new alternatives.

In study unit 5 we will look at logistics management within distribution channels and how it encompasses physical distribution.



Topic 3

CHANNEL MANAGEMENT

AIM

The aim of this topic is to help you to understand how distribution channels are managed.



Learning outcomes

After studying this topic, you should be able to

- discuss logistics management
- discuss the objectives and activities of distribution management
- explain the channel management concept
- analyse channel performance measures and discuss corrective actions

TOPIC CONTENT:

Study unit 5: Logistics management

Study unit 6: Managing the distribution channel

Study unit 5

Logistics management

INTRODUCTION

As discussed in study unit 1, distribution is about getting the right products to the right consumer at the right place, at the right time, at the right price and in the right quantity. You also learned that in order to achieve this, products have to be moved through a **distribution channel** to reach the final consumer. This **movement** of the products through the distribution channel has to be **managed** – and this is where **logistics management** fits in.

Do you remember this diagram from the introduction to study unit 4 that depicts a typical distribution channel?



Logistics would now manage the **movement of goods** as they are moved from the manufacturer all the way through to the customer. This management process can be quite intricate and entails planning, implementing, controlling, storing and transporting goods and services from their point of origin to their point of consumption.

OVERVIEW OF THIS STUDY UNIT

In this study unit we distinguish between logistics management and physical distribution. The two main objectives of distribution management and their inverse relationship are analysed. We then take a detailed look at the five activities of logistics management. This study unit ends with an overview of the concept of integrated logistics.

This study unit has a lot of activities that are aimed at helping you to learn the most important concepts. Do not skip these activities; use them as learning tools to help you with the module.

This study unit can be broken down into the following main learning areas on which you have to focus:

- the difference between logistics management and physical distribution, and their functions

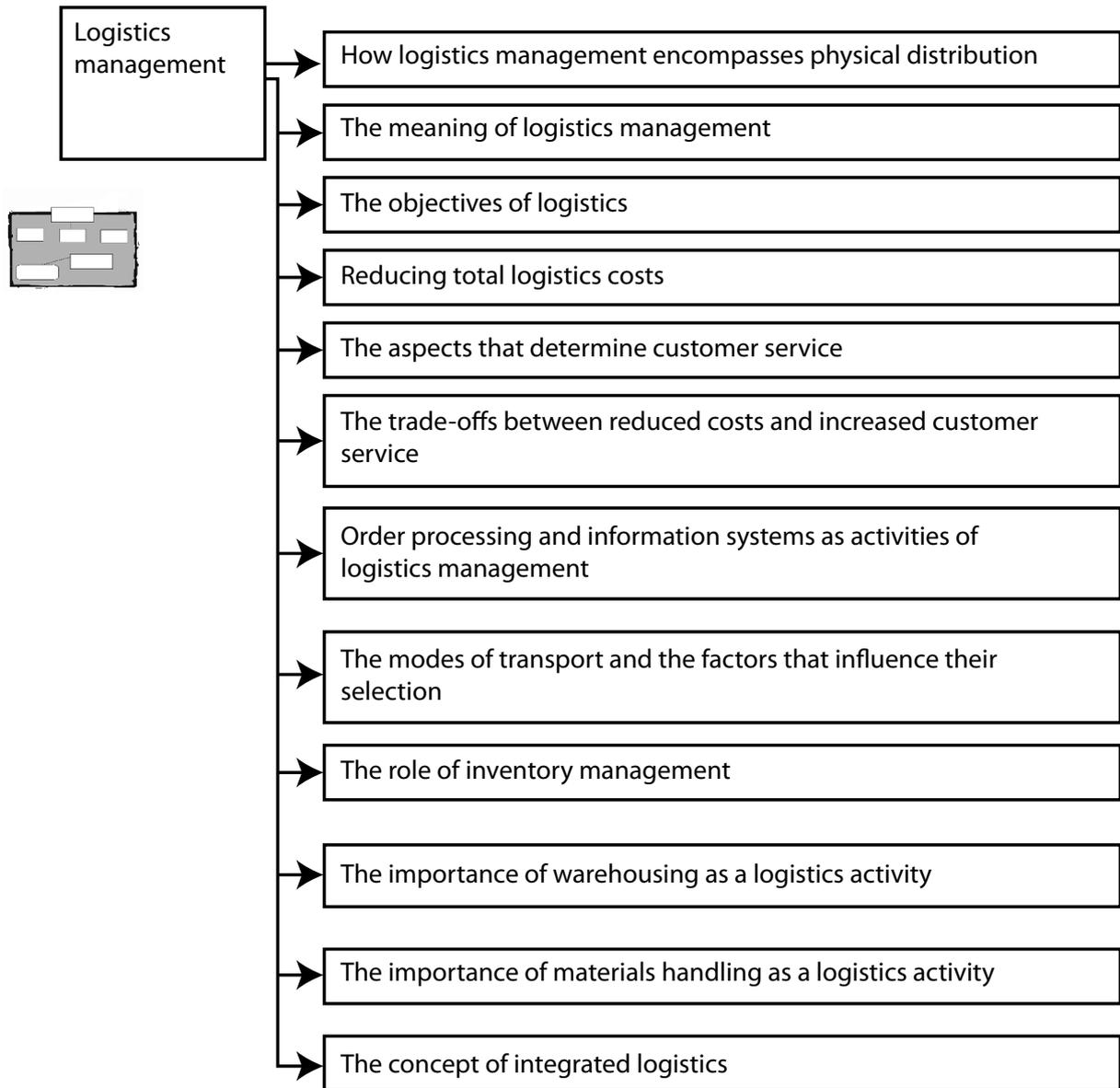
- the objectives of distribution and its complexity
- the five activities of logistics management and all their components and calculations
- the concept of integrated logistics

This is an extensive and detailed study unit. You will need a minimum of four hours to work through this chapter in detail to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 5.1 How logistics management encompasses physical distribution
- 5.2 The meaning of logistics management
- 5.3 The objectives of logistics
- 5.4 Reducing total logistics costs
- 5.5 The aspects that determine customer service
- 5.6 The trade-offs between reduced costs and increased customer service
- 5.7 Order processing and information systems as activities of logistics management
- 5.8 The modes of transport and the factors that influence their selection
- 5.9 The role of inventory management
- 5.10 The importance of warehousing as a logistics activity
- 5.11 The importance of materials handling as a logistics activity
- 5.12 The concept of integrated logistics
- 5.13 Assessment
- 5.14 Reflection
- 5.15 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

After you have worked through this chapter, you should be able to explain/define the following concepts:

- logistics
- physical distribution
- objectives of logistics
- inbound and outbound logistics
- logistics costs
- customer service
- order processing and information systems
- inventory management
- the reorder point
- order lead time

- usage rates
 - safety stock
 - economic ordering quantity
 - the just-in-time concept and ABC-inventory analysis
 - warehousing
 - materials handling
 - integrated logistics
-

5.1 HOW LOGISTICS MANAGEMENT ENCOMPASSES PHYSICAL DISTRIBUTION



(Study this section in the prescribed book.)

To avoid confusion, it is first and foremost important to understand the difference between logistics and physical distribution.

Physical distribution is **one component of logistics management** and is concerned only with the movement of **outbound** products to the consumers. Logistics management is a wider concept and is concerned with **inbound** raw materials and supplies, their **movement** through the manufacturing process and **outbound** logistics.

These concepts are represented in a simple diagram in your prescribed book. Study this figure carefully to ensure that you are able to clearly differentiate between these concepts.

Let us now look at logistics management in more detail.

5.2 THE MEANING OF LOGISTICS MANAGEMENT



(Study this section in the prescribed book.)

After you have studied the figure in the section above, you should be able to discuss the functions that logistics management encompasses. They are materials supply, materials management and (as mentioned in your prescribed book) physical distribution. We stress that it is important that you study and understand this figure in your prescribed book in order for you to be able to discuss this section clearly.

To ensure that you do not skip or look at this section too quickly, try to do the short activity below.



Activity 5.1

Fill in the gaps in the figure below to summarise the **functions of logistics management**.

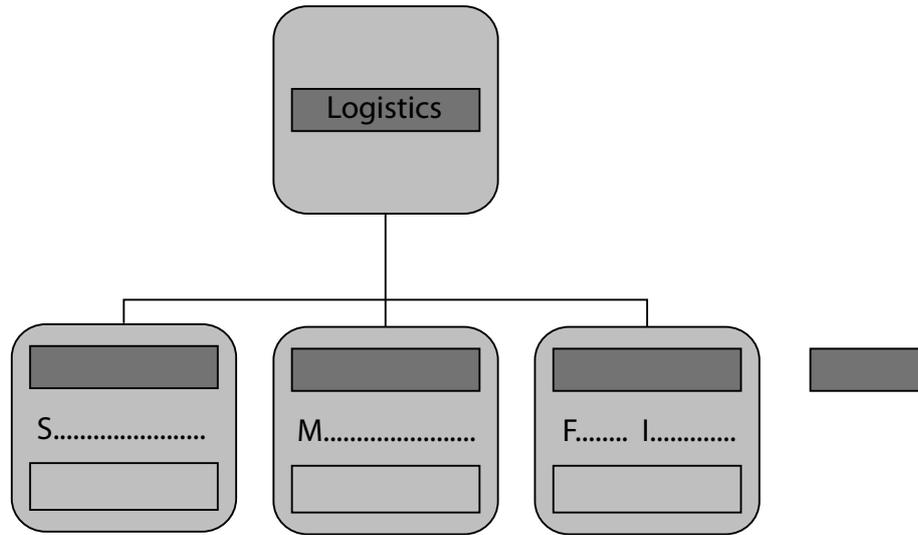


Figure 5.1: Logistics and physical distribution



Feedback

Were you able to summarise all the information on your first try? Practise how to draw the above figure from your prescribed book until it is second nature to you and you are able to recall all the information easily. Make sure that you can clearly differentiate between all the functions of logistics management.

To help you to understand this important differentiation clearly, let us look at the above information from a practical perspective. Think about how the functions of logistics would apply to a **car manufacturer**. Remember that logistics management has to do with the flow of goods from its origin to where it is eventually consumed or used.



Materials supply would encompass the inbound logistics of all the materials that are needed to manufacture cars, such as steel, rubber and paint.

The **materials management** function would then follow and would involve the handling, ordering and scheduling of all the above materials in order to successfully and efficiently manufacture the cars.

Then the **physical distribution** function would handle the outbound logistics to ensure that the completed cars reach the **customer**.

Let us now take a closer look at the **objectives** of logistics and what they should achieve.

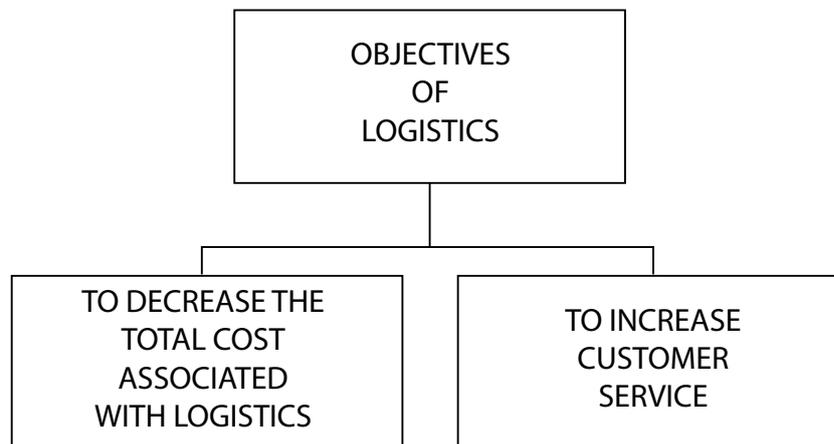
5.3 THE OBJECTIVES OF LOGISTICS



(Study this section in the prescribed book.)

Achieving high levels of logistics management competency can help companies to improve their profitability as well as their competitive performance. It is therefore a vital function of distributing management.

The objectives of logistics can be divided into two broad categories. Study the diagram and information below to ensure that you are able to discuss the two objectives of logistics and can differentiate between them for examination purposes.



Can you see from the diagram above that these two objectives may be inversely related? In other words, you may have to compromise on one objective in order to achieve another. Let us now look at each of these two objectives in detail in sections 5.4 and 5.5 in order to clearly understand their relationship with one another.

5.4 REDUCING TOTAL LOGISTICS COSTS



(Study this section in the prescribed book.)

The three main areas where logistics costs arise are information, transportation and storage. It is possible to reduce costs in these areas; however, such decisions often have repercussions. You have to be able to summarise and provide practical examples of each of the logistics costs for examination purposes.

Let us therefore explore these three cost areas in more detail by means of another activity.



Activity 5.2



Use the table below to briefly **summarise** your understanding of each of the main types of logistics costs. Use your prescribed book to help you to explain each cost area in more detail and then think about **practical ways** in which the **car manufacturer** that we discussed above can **decrease** costs in each of these areas.

Category	Summary	Practical example
Information – Order processing and administrative costs		
Storage – Inventory-related costs		
Transport – Transportation costs		



Feedback

The purpose of this activity is to ensure that you are able to discuss the three main cost areas of logistics management and can provide practical examples for various industries. Try and see if you can give more practical examples to supplement the ones that are provided below.

Category	Summary	Practical example
Information – Order processing and administrative costs	Concerned with all aspects of the order process, including writing, receiving, acknowledging and processing orders.	The car manufacturer could install an automated order processing system online for all their main clients.
Storage – Inventory-related costs	Inventory forms part of the manufacturers' current assets.	Outlet costs could be decreased by renting storage out of town in a low cost rental area.
Transport – Transportation costs	Depend on mode of transport, type of product and size.	Transportation can be reduced through purchasing larger trucks that can transport more vehicles at one time.

5.5 THE ASPECTS THAT DETERMINE CUSTOMER SERVICE



(Study this section in the prescribed book.)

As competition increases and communication improves, customer service becomes increasingly vital in organisations. In this section it is important to note that an organisation's "customers" are not only the final consumer, but also other businesses, wholesalers, retailers, et cetera.

After you have studied this section, you have to be able to discuss all five aspects of customer service as well as provide practical examples.

Customer service includes all the factors that affect the process of making products and services available to the buyer. Customer service performance can be divided into several categories: order lead time, dependability, convenience, inventory available and factors that influence customer service levels.

Let us explore these customer service performance areas in more detail by using an activity that is similar to activity 5.2 above.



Activity 5.3



Use your prescribed book to help you to briefly explain each of the customer services performance areas in more detail and then think about practical ways in which the car manufacturer that we discussed above can improve customer service in each of these areas. Fill in your answers in the table below.

Category	Summary	Practical example
Order lead time		
Dependability		
Convenience		
Inventory available		
Factors that influence customer service levels		



Feedback

The aim of this activity was to ensure that you are able to discuss all five aspects of customer service and provide practical examples. Brief feedback is provided; however, ensure that you

supplement this feedback with information from your prescribed book and your own practical examples.

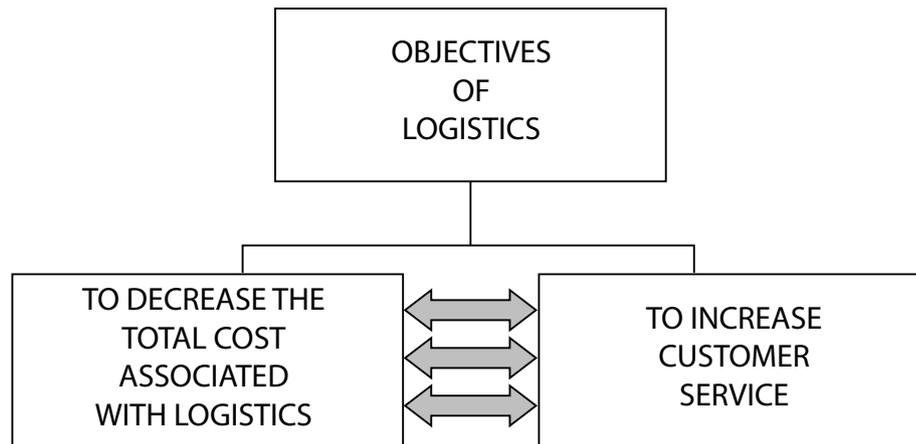
Category	Summary	Practical example
<i>Order lead time</i>	<i>The time it takes from order until delivery.</i>	<i>The car manufacturer can hire an additional truck for delivery.</i>
<i>Dependability</i>	<i>The degree of consistency and accuracy shown.</i>	<i>A consultant can be hired to focus solely on controls and accurate delivery.</i>
<i>Convenience</i>	<i>How favourable customers experience service delivery.</i>	<i>Market research can be conducted annually to research customers' opinions of the service offered.</i>
<i>Inventory available</i>	<i>The availability of inventory.</i>	<i>Additional inventory can be stored in a separate warehouse.</i>
<i>Factors that influence customer service levels</i>	<i>Refer to prescribed book and ensure that you are able to describe all the factors.</i>	<i>Can you think of your own practical examples for each factor?</i>

5.6 THE TRADE-OFFS BETWEEN REDUCED COST AND INCREASED CUSTOMER SERVICE



(Study this section in the prescribed book.)

After you have completed activities 5.2 and 5.3, you should be aware that the two main objectives of logistics **can work against each other**. After you have studied this section, you should be able to clearly explain the trade-offs between the two objectives.



For example, the car manufacturer may decide to cut transportation costs by using smaller transportation vehicles; this can, however, impact on the order lead time of the car. On the other hand, if the car manufacturer decides to increase the inventory that is available to ensure that the customers can always get cars in the colours they desire, this may increase storage costs for the car manufacturer. These are referred to as trade-offs.

Organisations therefore have to be very careful when they determine their logistics objectives to ensure that they maintain a balance.

Now that you have a good understanding of the objectives of logistics and their relationship to one another, we will look at the **activities of logistics management**. After you have studied this section, you should be able to clearly name and discuss the activities of logistics management. These activities can be divided into five categories and we discuss each category in a separate section of this study unit. The activities are presented as follows:

- (1) Order processing – section 5.7
- (2) Transportation – section 5.8
- (3) Inventory management – section 5.9
- (4) Warehousing – section 5.10
- (5) Materials handling – section 5.11

5.7 ORDER PROCESSING AND INFORMATION SYSTEMS AS ACTIVITIES OF LOGISTICS MANAGEMENT



(Study this section in the prescribed book.)

Order processing starts with the placement of an order and includes all the activities up until the customer receives the order. In this section it is important that you are able to explain the three tasks of order processing in detail. Refer to your prescribed book for a detailed illustration of order processing as a logistics activity.

It is also important that you understand the concept of **electronic data interchange** (EDI) and its advantages. You will find this information in your prescribed book. Make sure that you are able to explain EDI and discuss its advantages for examination purposes.

5.8 THE MODES OF TRANSPORT AND THE FACTORS THAT INFLUENCE THEIR SELECTION



(Study this section in the prescribed book.)

Transportation involves the actual movement of goods between different points in the distribution system. In this section it is essential that you are able to discuss the different modes of transport that are available as well as the factors that play a role in selecting transport modes. These factors are cost, time, accessibility, capability, frequency and reliability.

It is also important that you are able to explain this by means of practical examples. To improve your practical knowledge, take a moment to think about rail transport and how it has evolved in South Africa. Also visit www.gautrain.co.za.



Although the Gautrain is currently only used to transport passengers, think about how this mode of "speed train" transport can be used to improve transportation with regard to logistics management in South Africa.

5.9 THE ROLE OF INVENTORY MANAGEMENT



(Study this section in the prescribed book.)

The main function of inventory management is to minimise inventory costs while maintaining adequate inventory levels. There are a few vital concepts and calculations in this section that you should understand and be able to apply.

Ensure that you study this section thoroughly in your prescribed book and that you can define and differentiate between the following inventory management concepts:

- the reorder point
- the usage rate
- safety stock
- economic ordering quantity
- inventory carrying costs
- order processing costs
- the just-in-time concept
- ABC analysis

You should also be able to calculate the reorder point and the economic ordering quantity for an organisation. To make sure that you are able to do this, complete the activity below.



Activity 5.4

Sipho's Steel Manufacturers has a lead time of five days. The usage rate is 1 000 items per day. Sipho's Steel Manufacturers has an annual demand of 100 000 units. They carry a safety stock of 3 000 units. The unit cost per item is R100, the cost to place an order is R50 and inventory costs as a percentage of annual demand are 10%.

- (1) Calculate the reorder point for Sipho's Steel Manufacturers.
- (2) Calculate the economic order quantity (EOQ) for Sipho's Steel Manufacturers.



Feedback

Reorder point = (order lead time x usage rate) + safety stock

Reorder point = (5 x 1 000) + 3 000

*Reorder point = **8 000 units***

$$EOQ = \frac{\sqrt{2DO}}{IC}$$

$$EOQ = \frac{\sqrt{2 \times 10\,000 \times 50}}{10 \times 10\%}$$

$$EOQ = \frac{\sqrt{2 \times 10\,000 \times 50}}{10 \times 0.1}$$

$$EOQ = \frac{\sqrt{1\,000\,000}}{1}$$

$$EOQ = \sqrt{1\,000\,000}$$

EOQ = 1 000 units

Ensure that you know the above formula and are able to do the above calculation before you move on to the next section. Use the examples in your prescribed book to practise.

5.10 THE IMPORTANCE OF WAREHOUSING AS A LOGISTICS ACTIVITY



(Study this section in the prescribed book.)

Before you study this section, ask yourself the following questions:

- Do all businesses need a storage/warehouse facility?
- Is storage the only function of warehousing?
- Do organisations use different types of warehouses?

The answers to these questions are in your prescribed book under the section on warehousing. Ensure that you are able to discuss the functions of warehouses and warehousing decisions after you have studied this section.

5.11 THE IMPORTANCE OF MATERIALS HANDLING AS A LOGISTICS ACTIVITY



(Study this section in the prescribed book.)

Why do you think materials handling is an important activity of logistics?

Study the objectives of materials handling in your prescribed book to ensure that you are able to answer similar questions about it in the examination. Also, read about the different types of mechanical equipment that is used in materials handling.

In summary, the five activities of logistics management are order processing, transportation, inventory management, warehousing and materials handling. These activities are summarised in the form of a diagram in your prescribed book. Make sure that you are able to recall and discuss these five activities before you move on to the next section.

Also read the practical examples in this section of your prescribed book. They are good examples of how South African companies manage logistics activities and will give you practical insight into this topic.

5.12 THE CONCEPT OF INTEGRATED LOGISTICS



(Study this section in the prescribed book.)

Integrated logistics simply means that the various logistics activities **work together**. (It is well known that teamwork can make tasks easier and can be more efficient.)



Integrated logistics can work within or outside an organisation. Study this section in your prescribed book in order to be able to explain how integrated logistics is applied in two circumstances.

Read the exhibits in your prescribed book to get a good understanding of how companies such as Tiger Brands and Woolworths have successfully benefited from the use of integrated logistics.



5.13 Assessment

The following exercises are good examples of the sort of questions you will likely get in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) *Distinguish between logistics and physical distribution by means of a practical example.*
- (2) *Discuss the functions that logistics management encompasses.*
- (3) *Provide a detailed summary of the objectives of logistics in a diagram.*
- (4) *Summarise and give a practical example of each of the logistics costs.*
- (5) *Discuss and provide practical examples of the five aspects of customer service.*
- (6) *Explain the trade-offs between the two objectives (reduced cost and increased customer service) of logistics management.*
- (7) *Discuss EDI and mention its advantages.*
- (8) *Discuss the different modes of transport and the factors that play a role in selecting transport. Provide practical examples of each.*
- (9) *Define and differentiate between the inventory management concepts in section 5.9 above.*
- (10) *Discuss the functions of warehouses and warehousing decisions.*
- (11) *Discuss why you think materials handling is an important activity of logistics.*
- (12) *Differentiate between integrated logistics processes within and outside an organisation.*



5.14 Reflection

Before you go on to the next study unit, reflect on the following questions:

- *How do you think you will be able to use the information that you have just studied in your current student life or future career?*
- *Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?*
- *How long did it take you to work through this study unit?*

- *Are you still on schedule for the assignments and examination, in accordance with your study roster?*



5.15 Summary

The movement of products through the distribution channel has to be managed; this is where logistics management fits in. In this study unit we discussed various aspects of the logistics management function in detail.

After actively applying the knowledge that you have gained in this study unit, you should now be able to clearly distinguish between logistics management and physical distribution. You should also be able to explain the trade-offs that exist in the objectives of distribution management. Finally, you should have a detailed understanding of the five activities of logistics management and you should be able to use the calculations that we explained under inventory management in section 5.9 above.

In the next study unit, we look at the management of distribution channels.



Study unit 6

The management of the distribution channel

INTRODUCTION

The distribution channel consists of various intermediaries. As discussed in study unit 5, the **movement** of the products between the various intermediaries has to be managed; this was where we introduced **logistics management**.

The actual distribution channel and its members have to be managed. This is a strategic management function that encompasses the process of designing, selecting, managing and **evaluating** distribution systems and strategies.



The leaders in the channel have to ensure that all the channel members work toward a common goal. Channels can be led by manufacturers or producers, wholesalers, retailers or logistics organisations.

OVERVIEW OF THIS STUDY UNIT

In this study unit we look at the management of the distribution channel. We start by investigating the concept of channel management and differentiate it from channel design. We also differentiate between inter-organisational and intra-organisational channel management, and investigate vertical marketing systems and channel performance measures. We end this study unit by looking at corrective action in or revision of the distribution channel.

This study unit can be broken down into the following main learning areas on which you should focus:

- the process of designing, selecting and managing distribution systems and strategies
- the difference between channel management and channel design
- the difference between inter-organisational and intra-organisation channel management

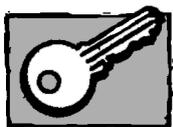
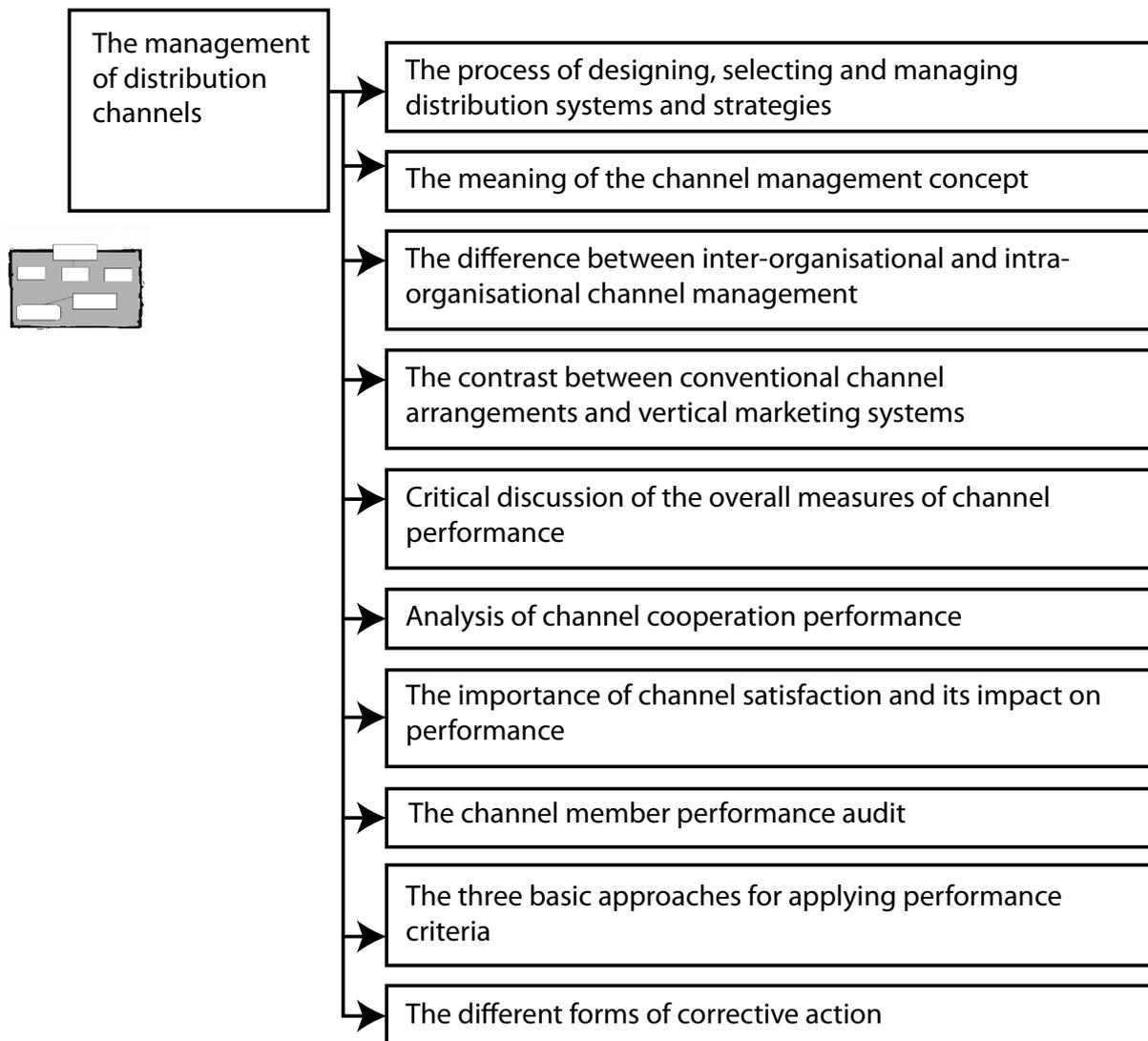
- conventional channel arrangements and vertical marketing systems
- channel cooperation, channel satisfaction and channel member performance
- the different forms of corrective action in or revision of the distribution channel

This is a detailed study unit. You will need a minimum of four hours to work through this chapter in detail to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 6.1 The process of designing, selecting and managing distribution systems and strategies
- 6.2 The meaning of the channel management concept
- 6.3 The difference between inter-organisational and intra-organisational channel management
- 6.4 The contrast between conventional channel arrangements and vertical marketing systems
- 6.5 Critical discussion of the overall measures of channel performance
- 6.6 Analysis of channel cooperation
- 6.7 The importance of channel satisfaction and its impact on performance
- 6.8 The channel member performance audit
- 6.9 The four basic approaches for applying performance criteria
- 6.10 The different forms of corrective action
- 6.11 Assessment
- 6.12 Reflection
- 6.13 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

After you have worked through this chapter, you should be able to explain/define the following concepts:

- channel management
- channel design
- physical distribution agencies
- inter-organisational and intra-organisational management
- vertical marketing systems
- forward vertical integration
- channel cooperation
- channel satisfaction
- channel member performance audit
- channel system effectiveness
- channel system equity
- channel system productivity

- channel system profitability
 - corrective actions
-

6.1 THE PROCESS OF DESIGNING, SELECTING AND MANAGING DISTRIBUTION SYSTEMS AND STRATEGIES



(Study this section in the prescribed book.)

Once an effective and efficient distribution channel has been developed, it is important to **manage the channel** so that it can achieve its full potential and meet its objectives. A channel will not just manage itself and members of the channel have to be managed and guided in a cooperative and strategic manner.

This strategic management process is clearly illustrated in your prescribed book. Study the steps in the diagram in your prescribed book and ensure that you are able to recall and discuss in detail the steps of the distribution management process.

6.2 THE MEANING OF THE CHANNEL MANAGEMENT CONCEPT



(Study this section in the prescribed book.)

The channel management decides on the **type of intermediaries** that are needed in the channel as well as the channel functions that the intermediaries have to perform.

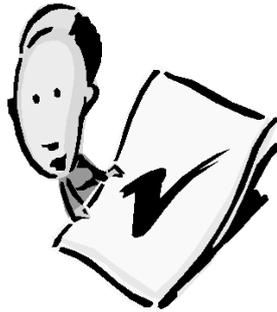
The channel management is defined in the prescribed book as "the administration of existing channels to serve the cooperation of channel members in achieving organisational distribution objectives".

You should be able to define and describe the channel management in detail. To ensure that you are able to do this, we can break down this definition as follows



The administration (the performance or management of business functions) **of existing channels** (the assumption is that the channel structure has already been designed) **to serve the cooperation of channel members** (to ensure that channel members cooperate)

in achieving organisational distribution objectives (statements that describe the expectations of the distribution component in achieving overall marketing objectives; channel management also involves the **evaluation** of the channel and its members' performance – we look at this in more detail in section 6.4).



It is important to note that **channel design** decisions are concerned with **setting up** a distribution channel; once the channel is set up, the channel management process begins.

Ensure that you can differentiate clearly between channel management and channel design before you move on to the next section.

6.3 THE DIFFERENCE BETWEEN INTER-ORGANISATIONAL AND INTRA-ORGANISATIONAL CHANNEL MANAGEMENT



(Study this section in the prescribed book.)

As discussed in section 6.2 above, one of the functions of channel management is the evaluation of the channel and the channel members' performance.

The management process whereby the performance of different organisations in the channel is evaluated, is referred to as **inter-organisational channel management**. In other words, it is the management/evaluation of more than one organisation.

Intra-organisational channel management is a different function since it refers to evaluating the performance of the employees **within an organisation** (the management of one organisation).

Ensure that you can differentiate clearly between these two concepts and are able to define them before you move on to the next section.

6.4 THE CONTRAST BETWEEN CONVENTIONAL CHANNEL ARRANGEMENTS AND VERTICAL MARKETING SYSTEMS



(Study this section in the prescribed book.)

By now you may be asking the question: Who should lead the distribution channel management process?

There are several answers to this question. We will, however, classify them into two broad categories.

- (1) *Conventional channel arrangement.* This arrangement allows one of the intermediaries in the distribution channel to fill the leadership role within the channel.
- (2) *Vertical marketing systems.* A vertical marketing system is a system where the distribution channel is totally integrated on a vertical level from the manufacturer down to the final intermediary.

This concept is explained in detail in your prescribed book. When you study this section, ensure that you are able to explain the above two systems as well as describe the types of vertical marketing systems that are available. In this section it is also important that you are able to define the concept of forward vertical integration.

Forward vertical integration occurs when a manufacturer or wholesaler either acquires or takes over the functions of an intermediary that is closer to the consumer. Examples of manufacture that completely vertically integrate forward include Goodyear, IBM and Singer.



It is important that you are also able to discuss this section from a practical perspective. Supplement your knowledge on this topic by conducting some research online to find out which South African companies make use of forward vertical integration. Also visit <http://www.saimm.co.za/Journal/v100n04p259.pdf> to read an interesting article about vertical systems within the South African mining industry.

Make sure that you are able to explain why organisations integrate their distribution function vertically. Here are a few options to supplement your knowledge:

- lower transaction costs
- synchronisation of supply and demand along the chain of products
- lower uncertainty and higher investment

- ability to monopolise the market throughout the chain through market foreclosure
- better opportunities for investment growth through reduced uncertainty

6.5 CRITICAL DISCUSSION OF THE OVERALL MEASURES OF CHANNEL PERFORMANCE



(Study this section in the prescribed book.)

It is the channel management's long-term objective to achieve the greatest possible impact at the lowest possible cost so that the channel can make satisfactory profits and returns. If there is coordination within the distribution channel, it is more likely that this goal will be achieved and the channel will perform at its full capacity.

Study this section in your prescribed book to ensure that you are able to discuss the steps of the basic coordination process.

Channel performance is also determined by channel structure and the behaviour of individual channel members. We discuss the measurement of these performances in greater detail in sections 6.8, 6.9 and 6.10 of this study unit.

6.6 ANALYSIS OF CHANNEL COOPERATION



(Study this section in the prescribed book.)

The fourth step of the coordination process involves **channel cooperation**. Channel cooperation can be defined as the cooperation between members of a distribution channel as a result of harmonious marketing objectives and strategies.



Cooperation arrangements between members are quite diverse and are only limited by the creativity of the channel leaders. Refer to your prescribed book and ensure that you are able to define this concept.

6.7 THE IMPORTANCE OF CHANNEL SATISFACTION AND ITS IMPACT ON PERFORMANCE



(Study this section in the prescribed book.)

Channel satisfaction refers to the overall evaluation of the relationship between two or more channel members. This can be measured on five dimensions:



1. Social interaction



2. Product dimensions



3. Financial dimensions



4. Cooperative advertising



5. Assistance dimension

Ensure that you are able to differentiate between and explain these five dimensions and their practical application before you move on to the next section.

6.8 THE CHANNEL MEMBER PERFORMANCE AUDIT



(Study this section in the prescribed book.)

Manufacturers can use two basic types of evaluation approaches to evaluate the members of the supply chain. The first method is the day to day monitoring of the performance of the channel members.

The second method is much more comprehensive and is referred to as the channel member **performance audit**. In general the word “audit” can be defined as a careful

examination for accuracy with the intent of verification. The channel member performance audit consists of three basic phases:

- (1) *Develop performance measurement criteria.* These are standards for measuring the achievement of distribution channel objectives. (We discuss this further in section 6.9 of this study guide)
- (2) *Evaluate channel members against criteria.* Checking channel members' performance against the performance management criteria.
- (3) *Take corrective action if needed.* We discuss this in section 6.10.

You have to be able to differentiate between the two basic types of evaluation approaches before you move on to the next section.

6.9 THE FOUR BASIC APPROACHES TO APPLYING PERFORMANCE CRITERIA



(Study this section in the prescribed book.)

As mentioned above, in order to effectively audit channel members' performance, it is important to start with the standards for measuring the achievement of distribution channel objectives. There are four basic performance measures that can be applied:

(This is an important section of this study unit. Ensure that you are able to explain and apply the four basic approaches for applying performance criteria after you have studied this section.)

- (1) *Effectiveness.* This basically measures how well the channel (or channel member/s) is meeting its goals. In this section it is important that you learn and understand the steps of the process of evaluating the total effectiveness of the channel as illustrated in your prescribed book.
- (2) *Equity.* In summary, equity is a measure of how well a channel (or channel member/s) is serving the economically disadvantaged. Ensure that you are also able to define discretionary income after you have studied this section in your prescribed book.
- (3) *Productivity.* Productivity measures how good your outputs are versus your inputs. In this section it is important that you learn and know the formula to measure channel system productivity. Make sure that you are able to summarise and explain the different approaches for measuring productivity for examination purposes.
- (4) *Profitability.* Profitability can also be measured in various ways. Three determinants of channel system profitability are discussed in your prescribed book: distribution cost analysis, the strategic profit model and direct product profit. Ensure that you can distinguish between these different methods and their formulas.

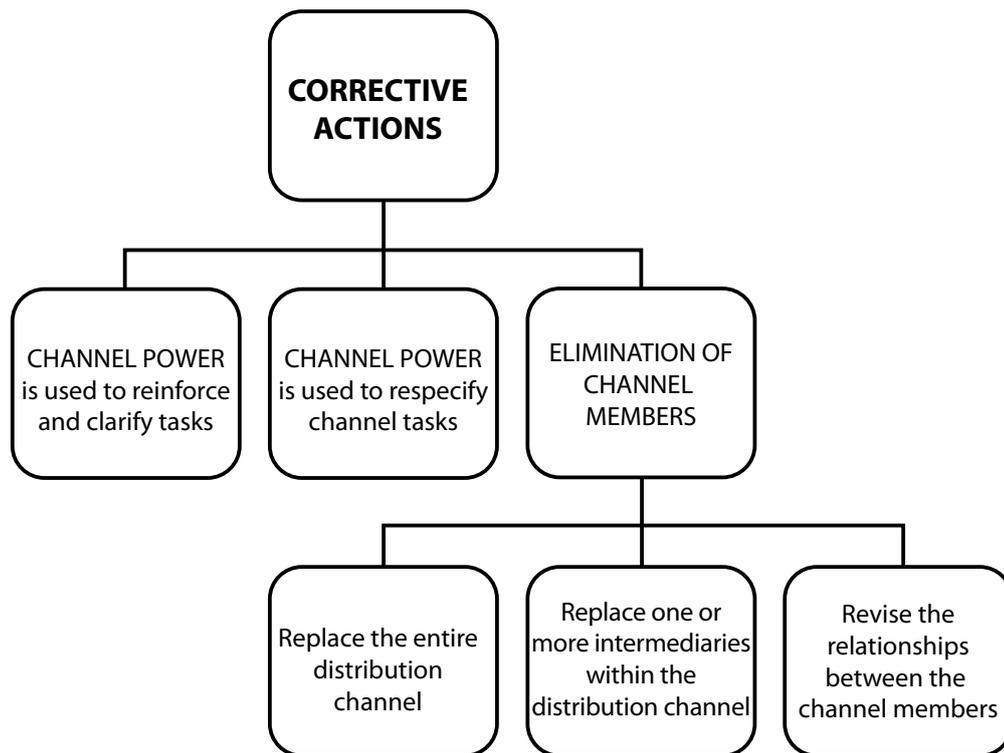
6.10 THE DIFFERENT FORMS OF CORRECTIVE ACTION



(Study this section in the prescribed book.)

The final step of the channel evaluation process is to take corrective action, if necessary, to ensure that the channel services are being accurately delivered.

This section is summarised for you below in the form of a diagram. Refer to your prescribed book to supplement your knowledge so that you can both draw this diagram and describe it for examination purposes.



Before you do the exercises below, ensure that you are able to identify practical circumstances that may require modification changes within a distribution system. Refer to the examples in your prescribed book.



6.11 Assessment

The following exercises are good examples of the sort of questions you will likely get in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) *Discuss the steps of the distribution management process.*
- (2) *Explain channel management and its main functions.*

- (3) *Distinguish between inter-organisational and intra-organisational management systems.*
- (4) *Discuss the five types of vertical marketing systems that are available and provide a practical example for each system.*
- (5) *What is the overall goal of channel management?*
- (6) *Can channel cooperation help in achieving the overall goal of channel management?*
- (7) *Explain the five dimensions of channel satisfaction.*
- (8) *Discuss the differences between the two basic types of evaluation approaches.*
- (9) *Define the following terms within distribution management: "channel effectiveness", "channel system equity", "channel productivity", "channel profitability" and "channel cooperation".*
- (10) *Give practical examples that may require modification changes within a distribution system.*



6.12 Reflection

Before you go on to the next study unit, reflect on the following questions:

- *How do you think you will be able to use the information that you have just studied in your current student life or future career?*
- *Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?*
- *How long did it take you to work through this study unit?*
- *Are you still on schedule for the assignments and examination, in accordance with your study roster?*



6.13 Summary

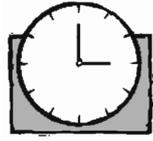
In this study unit we investigated the management of the distribution channel, which is essential to ensure that all the channel members work towards a common goal.

Since you have worked through this study unit, you should now clearly understand the distribution management concept. You should be able to distinguish between inter-organisational and intra-organisational management and between conventional and vertical marketing systems.

To ensure an efficient marketing channel, the performance of both the channel members and the channel structure should be evaluated. You should be able to explain the overall measures of channel performance and thoroughly understand the channel member performance audit.

We ended this study unit by looking at the four basic approaches for applying performance criteria. You should now be able to use the calculations for these approaches. Finally, you should be aware of the different forms of corrective action that are available.

In the next section, we look at the behavioural processes within the distribution channel.



Topic 4

RELATIONSHIPS IN DISTRIBUTION CHANNELS

AIM

The aim of this topic is to help you to understand the behavioural process that takes place in the distribution channel.



Learning outcomes

After you have studied this topic, you should be able to

- discuss channel conflict and channel power
- explain how effective communication can be used to improve a distribution channel

TOPIC CONTENT:

Study unit 7: The behavioural processes in the distribution channel

Study unit 7

The behavioural processes in the distribution channel

INTRODUCTION

Relationships between channel members can be just as sensitive and complicated as relationships between people. Just as in normal relationships, channel members may also come across conflict, dominant personalities and power struggles.



It is therefore necessary to look at the behavioural aspects that play a role in the functioning of distribution channels.

For the rest of this study unit, try and view a distribution channel as a social playground where emotions have to be considered, bullies have to be controlled, fighting has to be minimised and communication has to be encouraged.

OVERVIEW OF THIS STUDY UNIT

In this study unit we look at the social or behavioural processes that take place within distribution channels. We start by looking at channel conflict and its causes. Then we look at the different aspects of channel power. We end this study unit with a discussion on communication within distribution channels and how it can be used to enhance the flow of information between channel members.

This study unit can be broken down into the following main learning areas on which you have to focus:

- the definitions of channel conflict and channel power
- the causes of channel conflict and how it can be resolved
- the use of channel power and how it can influence channel members

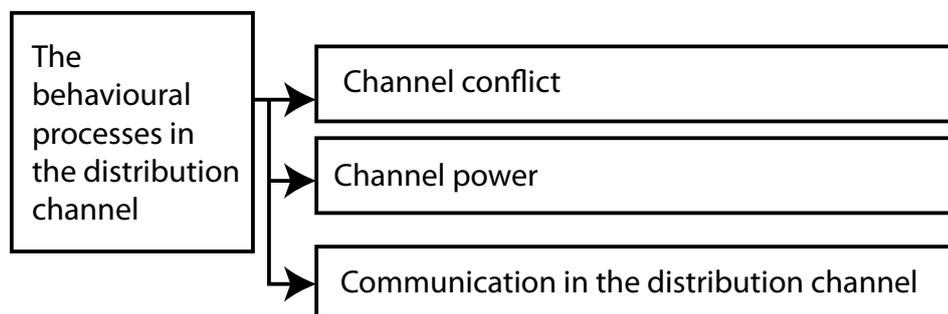
- how effective communication can be used to solve some of the channel conflict situations within the distribution channel

You will need approximately two hours to work through this study unit to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 7.1 Channel conflict
- 7.2 Channel power
- 7.3 Communication in the distribution channel
- 7.4 Assessment
- 7.5 Reflection
- 7.6 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

After you have worked through this study unit, you should be able to explain/define the following concepts:

- channel conflict
- causes of channel conflict
- problem solving, persuasion, negotiation and politics
- coalitions, mediation and arbitration, lobbying and judicial appeal
- reward power
- coercive power
- legitimate power
- referent power
- expert power
- influencing strategies
- perceptual differences

- secretive behaviour
 - infrequent communication
-

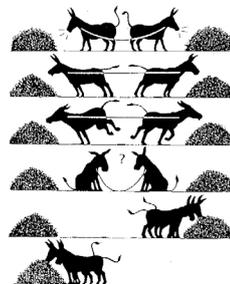
7.1 CHANNEL CONFLICT



(Study this section in the prescribed book.)

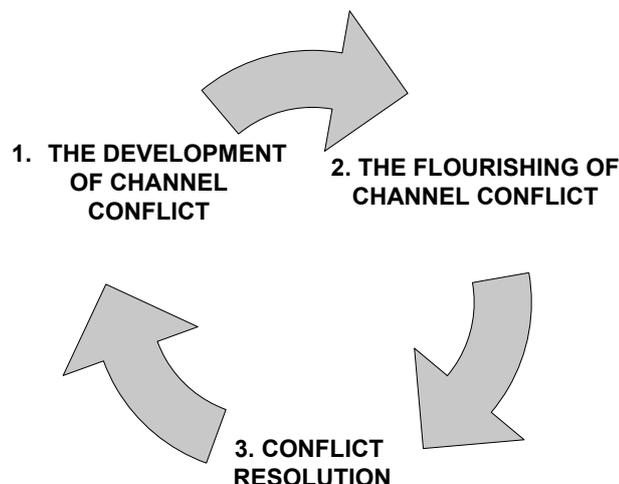
Conflict is generally defined as a state of opposition between persons, ideas or interests. Have you ever found yourself in a situation where your ideas are opposed by someone else? This may result in a conflict situation that can worsen over time.

Look at the illustration below of the two donkeys that are in a conflict situation.



Do you agree that ultimately conflict should be resolved in order to reap the best results?

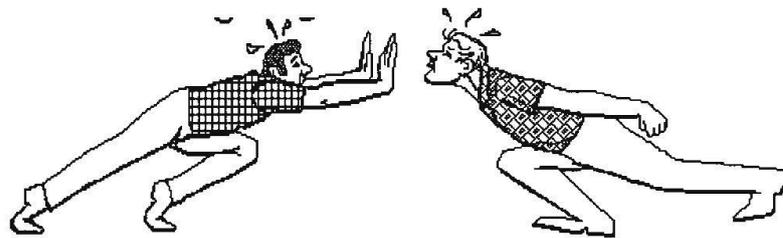
Channel conflict occurs when channel members have conflicting objectives with regard to pricing, duties and the responsibilities of channel members. Similar to the picture above, channel conflict follows a pattern or cycle. This process is summarised in the diagram below.



Ensure that you are able to define channel conflict and describe the three phases of the channel conflict cycle. Let us therefore look at each of these phases of the conflict cycle individually.

7.1.1 The development of channel conflict

There are various reasons for channel conflict. Your prescribed book contains a list of 21 different causes of conflict that are summarised in a table. Make sure that you are able to identify and discuss the various causes of channel conflict before you move on to the next section.



7.1.2 The flourishing of channel conflict

Conflict builds up over time. Sometimes channel members may suppress their conflicting feelings until they boil over and come to the surface; this can lead to hostility between members.

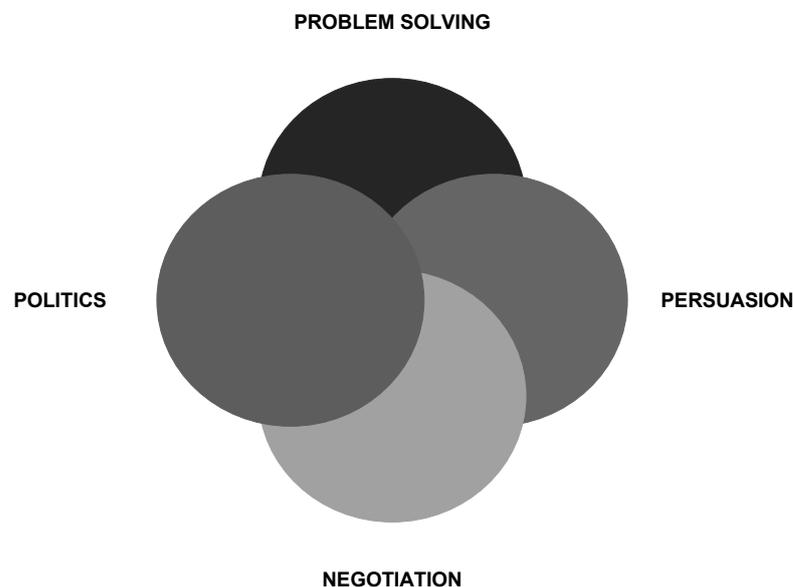


Here is an interesting question: Do you think that conflict between members is always a disadvantage to the channel? Sometimes channel conflict can be advantageous because it opens up channels of communication and keeps all the members of the channel on their toes; however, most of the time unresolved conflict is disadvantageous to both the members of the channel and the final consumer. Channel conflict can be resolved in various ways.



7.1.3 Conflict resolution

There are various ways in which people can resolve conflict. Your prescribed book contains a summary of the four methods to solve channel conflict. Study these pages and then see if you can write a brief description of each of the methods in the diagram below:



Were you able to briefly summarise each of the four methods for solving channel conflict? Make sure that you can do this before you move on to the next section. Also ensure that you can differentiate between the different political methods channel members use to resolve conflict.

7.2 CHANNEL POWER



(Study this section in the prescribed book.)

Channel power implies that one or more members of a distribution channel are recognised by the other members as having some sort of decision-making power.



Have you ever seen a television advertisement that ends with the words "in participating stores only"? A manufacturer may have a special promotion and discounts prices over a certain period; however, not all retailers may have agreed to participate and therefore, when the special is advertised, it is necessary to add this phrase. This is one example of a channel power struggle between the members of a supply chain.

Another example is when a musician or band launches a new album. The band may want their CD to be distributed widely and therefore they add the phrase "stocked in all the best music stores" at the end of their radio advertisement. If Musica had refused to sell the band's CD, they may now reconsider their decision and start to sell it to ensure that they are seen as one of the best music stores.



MUSICA
A WORLD AWAITS

Both of these examples illustrate how the members of a distribution channel may be subjected to some level of power. Ensure that you are able to identify and discuss practical examples like these for examination purposes.

Your prescribed book illustrates five types of channel power that are particularly applicable to distribution channels. Ensure that you are able to define these five sources and provide practical examples of each. Let us therefore look at each of these sources.

- (1) *Reward power.* This is when one channel member receives something in return from another channel member if the former conforms to the latter's expectations. For example: South African Breweries offers discounts to liquor stores in accordance with the number of South African Breweries products they sell every month.
- (2) *Coercive power.* This form of power is the opposite of reward power and can be summarised as a fear of punishment. For example: In South Africa, a pharmacy may only sell Schedule 4 medicine to a customer if the customer has a prescription from

a doctor. If they do not comply with this regulation, they may be investigated and punished by the relevant authorities.

- (3) *Legitimate power.* This is a legal form of power that is normally formalised and agreed upon in a written agreement. For example: A McDonald's franchisee has to make their hamburgers exactly as the McDonald's franchisor stipulates to ensure conformity among all the branches. This forms part of their franchise agreement.
- (4) *Referent power.* Referent power occurs when two or more parties in a distribution system see themselves as similar and from the same reference group. For example: Some products are sold exclusively in Clicks because the manufacturers of these products feel that the products match Click's image and they will benefit from Click's good reputation. Clicks also benefits from this arrangement since they are seen as a store that stocks exclusive products.
- (5) *Expert power.* When perceived knowledge or actual knowledge is shown, channel members can be influenced by the expertise of another member. For example: The manufacturers of Dell computers may advise a new retailer on how to store, transport and display their products due to the experience they have in the industry.

Please ensure that you can describe and differentiate between these sources of power before you continue with the next section. Also ensure that you study the section in your prescribed book which explains how the above forms of power can be converted to influence other channel members.

7.3 COMMUNICATION IN THE DISTRIBUTION CHANNEL



(Study this section in the prescribed book.)



Have you ever heard a psychologist or television personality like Dr Phil or Oprah inform couples that the only way to resolve their problems is to discuss them openly with each other? Communication can be defined as a two-way process of sharing meaning and reaching a mutual understanding. It is thus a vital key in the resolution of problems. Communication within the distribution chain is vital because it can facilitate the free flow of ideas and ensure effective problem solving.

There are three behavioural problems that can inhibit the free flow of communication: perceptual differences, secretive behaviour and infrequent communication. Please ensure

that you are able to clearly define these three behavioural problems and provide practical examples before you move on to the next section.

Study these three behavioural problems in your prescribed book and then see if you can come up with a practical example for each of the following inhibitors:

- (1) perceptual differences
- (2) secretive behaviour
- (3) infrequent communication



Activity 7.1

A manufacturer of office furniture uses sales representatives to sell the furniture in retail stores. New stock arrives daily and old stock moves quickly. The prices of the furniture change often depending on demand. The sales representatives are getting confused and are never up to date with the stock levels, prices and new arrivals. Provide practical ways in which the manufacturer and the sales representatives can improve their communication.



Feedback

An example from your prescribed book is setting up a website as a possible means of improving communication. The website can have a chat or forum function, new specials and prices can be listed daily, and all the members of the channel can be given free access to the site. You may have thought of numerous other examples. Here are a few more suggestions:

- setting up a shared network to share documents between computers
- providing all the sales representatives with Blackberry smartphones so that they can access their emails at all times and communicate cheaply via Blackberry Messenger
- opening a call centre/one-stop hotline (the sales representatives can call the centre whenever they have a question regarding stock or pricing)

Were you able to think of other options that are not listed above?



7.4 Assessment

The following exercises are good examples of the sort of questions you will likely get in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) Define channel conflict and discuss the three phases of the development of channel conflict within distribution channels.
- (2) Name the five sources of channel power and give a practical example of each.
- (3) Identify the three behavioural problems that can inhibit the free flow of communication within a distribution channel.
- (4) Explain how politics can be used to resolve channel conflict.
- (5) The manufacturer of office furniture that we used in activity 7.1 of this study unit is having problems. There are too many stores to sell to and too few sales representatives. He has therefore hired new representatives with little experience and little training. The solutions suggested above for improving communication have not yet

been implemented, thus there are still problems with stock levels and pricing. Which of the 21 possible causes of channel conflict are applicable to this example?



7.5 Reflection

Before you go on to the next study unit, reflect on the following questions:

- How do you think you will be able to use the information that you have just studied in your current student life or future career?
- Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?
- How long did it take you to work through this study unit?
- Are you still on schedule for the assignments and examination, in accordance with your study roster?



7.6 Summary

The distribution channel forms part of a complex social system. In this study unit we looked at the behavioural processes in the distribution channel. We defined channel conflict and discussed various causes for channel conflict. Furthermore, we explored methods of addressing channel conflict and discussed the role of communication in channel conflict resolution. By now you should be familiar with all the key concepts.

In the next study unit, we look at electronic distribution channels.



Topic 5

ELECTRONIC DISTRIBUTION CHANNELS

AIM

The aim of this topic is to help you to understand how distribution and the internet interact with each other.



Learning outcomes

After you have studied this topic, you should be able to

- differentiate between the internet and the web
- discuss the impact of the internet on distribution channels
- discuss multiple channel distribution

TOPIC CONTENT:

Study unit 8: Electronic distribution channels

Study unit 8

Electronic distribution channels

INTRODUCTION

The internet has influenced our lives in many ways. In the last 20 years, ways of doing business, marketing and even distribution channels have had to adapt to stay ahead and take advantage of the benefits the internet has to offer. Do you know when and where the internet started?



In 1958 President Dwight D Eisenhower started the Advanced Research Projects Agency to improve technological advancements around space travel. By 1969, the first ARPANET network connection between two computers was made – and promptly crashed! The next time around, it was much more successful and the internet was born.

More and more computers have since joined this ever-increasing network and the internet has grown into the megalith that we know today. It affects many areas of business, including distribution.

OVERVIEW OF THIS STUDY UNIT

We start this study unit by differentiating between the internet and the web. We then look at the advantages of the web in marketing as a whole and how distribution and the internet interact with each other. We end by looking at how supply chains are changing due to the influences of the internet and at the introduction of multiple channels in distribution.

This study unit can be broken down into the following main learning areas on which you should focus:

- the difference between the internet and the web, and their importance in business
- the advantages of the web in marketing

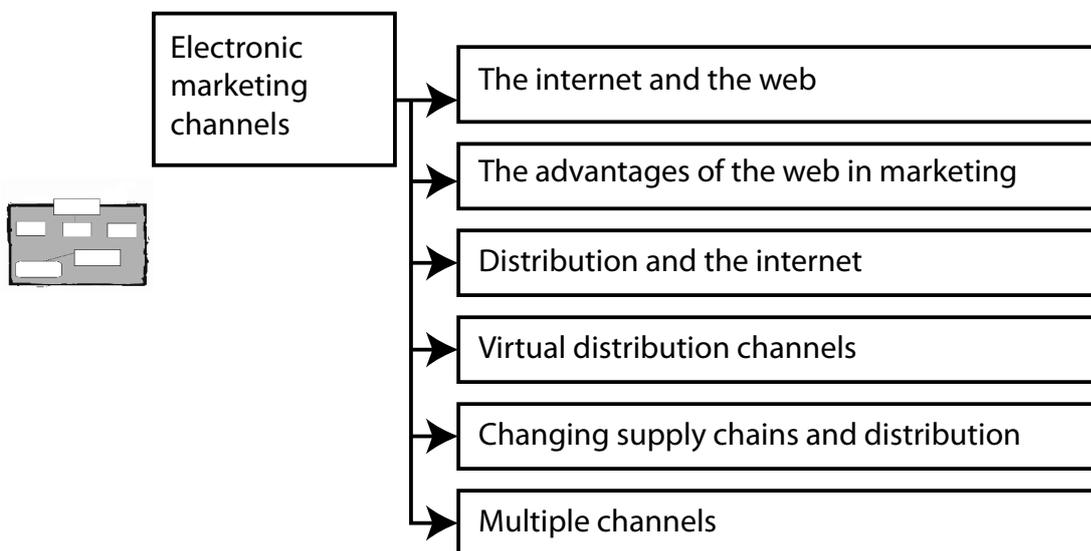
- the internet's impact on distribution channels
- changing supply chains due to the influences of the internet

You will need approximately two to three hours to work through this chapter in detail to ensure that you understand the topics that are covered.

OVERVIEW OF THIS STUDY UNIT:

- 8.1 The internet and the web
- 8.2 The advantages of the web in marketing
- 8.3 Distribution and the internet
- 8.4 Changing supply chains and distribution
- 8.5 Multiple channels
- 8.6 Assessment
- 8.7 Reflection
- 8.8 Summary

THIS STUDY UNIT WILL UNFOLD AS FOLLOWS:



Key concepts

After working through this chapter, you should be able to explain/define the following concepts:

- the internet

- the World Wide Web
 - e-commerce
 - virtual distribution
 - traditional distribution
 - supply-chain functioning
 - multiple channels
-

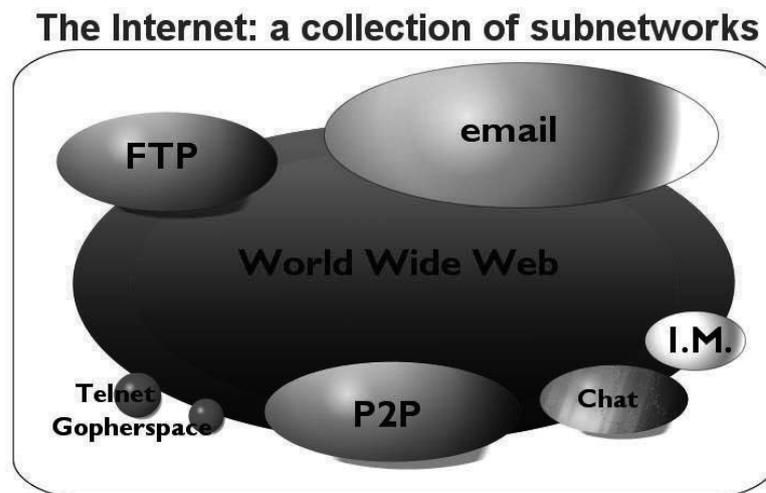
8.1 THE INTERNET AND THE WEB



(Study this section in the prescribed book.)

Before you start with this section, ask yourself the following question: Is there a difference between the internet and the web (the World Wide Web)?

It is common to use the words interchangeably in daily conversation but, to be technically precise, they are very different. The internet is the large container and the web is a part of the container. Please ensure that you can clearly differentiate between the internet and the web before you move on to the next section.



Source: <http://netforbeginners.about.com/library/diagrams/nwww2.htm>

The internet is a massive network of networks – a networking infrastructure. It connects millions of computers together globally to form a network in which any computer can communicate with another computer as long as both are connected to the internet.

The web is a way of accessing information over the medium of the internet. It is just one of the ways in which information can be disseminated over the internet. So the web is just a portion of the internet – albeit a large portion. The two terms are not synonymous and should not be confused.

To find out more about how the internet and the web work, visit the following websites:

<http://computer.howstuffworks.com/Internet/basics/Internet-versus-world-wide-Web.htm>

http://www.Webopedia.com/DidYouKnow/Internet/2002/Web_vs_Internet.asp

Also read the invaluable information in your prescribed book to expand your knowledge.

8.2 THE ADVANTAGES OF THE WEB IN MARKETING



(Study this section in the prescribed book.)

There are many other pros and cons of using the web in marketing. Study the advantages of the web in marketing that are listed in your prescribed book and then read the information below to supplement your knowledge. The section below highlights some of the disadvantages web marketing may have. Make sure that for examination purposes, you are able to discuss and differentiate between both the advantages and the disadvantages of internet marketing via the web.



ADVANTAGES OF INTERNET MARKETING VIA THE WEB

- You can communicate with a large number of direct customers quickly and efficiently.
- Marketing can be personalised according to customer profiling.
- Your store is open 24 hours a day for seven days a week.
- The cost of spreading your message is next to nothing.
- Visitors to your website can get up to the minute information on each visit. If you have a sale, your customers can shop at the discounted prices literally as soon as they open their email.
- If you have an information sensitive business such as a law firm, you can deliver your products directly to your customers without having to use a courier.



DISADVANTAGES OF INTERNET MARKETING VIA THE WEB

- Marketing on the web is not free. The cost of software; hardware; website design; maintenance of your site; online distribution costs; and, of course, time should all be factored into the cost of providing your service or product.
- Many people still prefer live interaction when they buy.
- It is easier to have outdated information on your site, thus the timing of updates is critical.
- There is no replacement for good, old-fashioned customer service.
- Is your site secure? Does your customer know this? There are many incorrect stereotypes about the security of the internet. As a result, many of your visitors will not want to use their credit cards to make purchases.
- There is already a lot of competition. By the time your visitors find you, they have already been clicking on many links. Unless they can find what they are looking for quickly, they will be gone.

Visit http://EzineArticles.com/?expert=Christopher_W_Smith to expand your knowledge of this topic.

8.3 DISTRIBUTION AND THE INTERNET



(Study this section in the prescribed book.)

By now you may be asking the following questions: How can the internet play a role in the actual distribution function? Is it possible for the internet to help in actually moving physical products? With regard to **traditional products**, the internet can **facilitate** the distribution process; with regard to more modern **digital products**, the internet can serve as a powerful **distribution tool**.

Please ensure that you are able to explain how the internet plays a role in the actual distribution function. Let us therefore look at the two categories in more detail:

(1) Virtual distribution using the internet

Study this section in your prescribed book to ensure that you understand the benefits of virtual distribution so that you can explain it by means of practical examples.

The kinds of products that can be distributed "virtually" are products or services that can be distributed in **digital form**. These include news, software, music, videos and magazines.

Every day more and more virtual products become available. Examples include books and prescribed books that you can download onto electronic readers such as a Kindle.

Can you think of more examples? Ensure that you are able to explain this concept by means of practical examples.

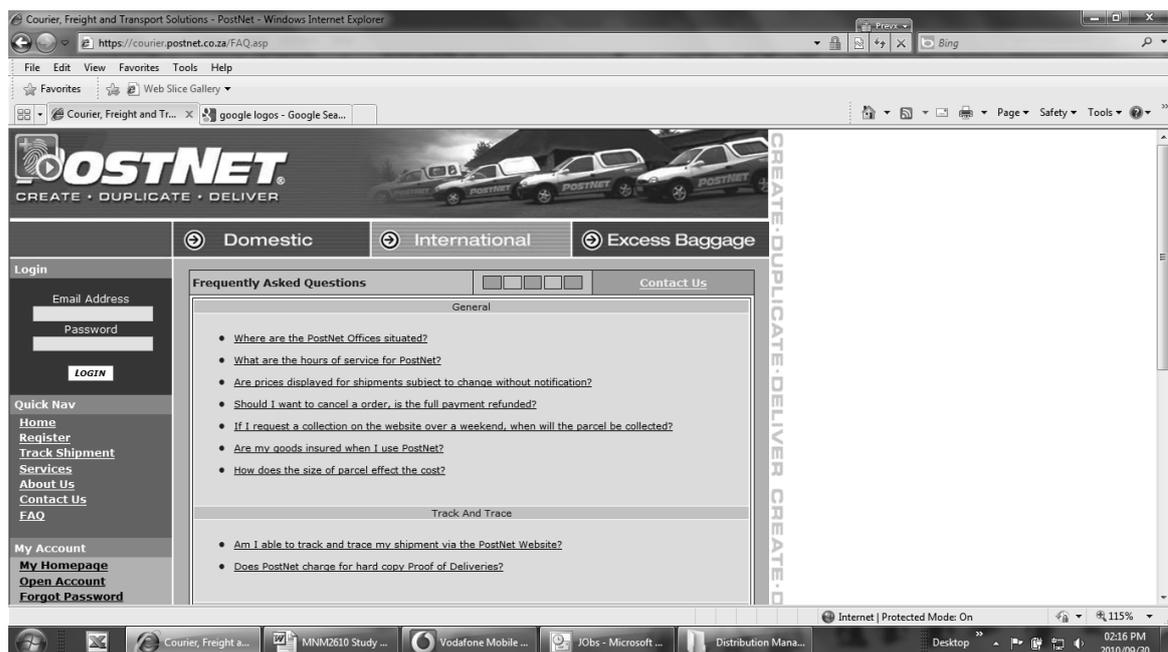
(2) Traditional distribution facilitated by the internet

Read this section in your prescribed book to ensure that you are able to describe (by means of practical examples) how the internet contributes to the success of e-commerce.

Some products will of course never be able to be physically distributed via the internet; however, the internet can still **facilitate** their delivery process.

The most common way in which the internet contributes to distribution is through the facilitation of communication between various suppliers or between manufacturers and final consumers. Many websites offer tracking systems for both clients and suppliers to trace where their purchased products are within the distribution channel.

Look at the example below of the tracking and tracing system on PostNet's website. This system has improved rapidly over the past few years. To find out more about this system, log on to www.postnet.co.za.



There are many other ways in which the internet can assist the distribution function. Can you think of more examples? Think about how search engines such as Google can help suppliers and customers to choose the best channels that are available? Social networking sites are even providing opportunities for customers to communicate and thus find and compare products and their delivery systems.



8.4 CHANGING SUPPLY CHAINS AND DISTRIBUTION



(Study this section in the prescribed book.)

In this section it is important to understand how supply chains are changing due to the influences of the internet. The main feature of the new supply chains is that they are smaller, faster and more transparent. Read the exhibit in your prescribed book to ensure that you are able to explain how transparency within the supply chain has become an important feature of internet-mediated supply chains.

8.5 MULTIPLE CHANNELS



(Study this section in the prescribed book.)

Refer to the section on multiple channels in your prescribed book and ensure that you are able to define and discuss the use of multiple channels.

As discussed in section 4.5 in this study guide, a hybrid channel system is a distribution system where more than one distribution channel are used to reach the target market. It can also be referred to as a **multiple channel**. Because of the availability of the internet, more and more companies are using multiple channel options to reach their customers.

Think about the example of Pick n Pay that we used in section 2.2 of this study guide. Pick n Pay offers their customers the option of shopping in their stores or online, thus making use of a multiple distribution channel.



Revisit pnponline.co.za to discover more about this system.



8.6 Assessment

The following exercises are good examples of the sort of questions you will likely get in the examination. Work through them carefully and compare your answers with the feedback in the prescribed book.

- (1) Compare the internet with the web by means of practical examples.*
- (2) Discuss the advantages and the disadvantages of internet marketing via the web.*
- (3) Discuss the influences of the internet on both virtual and traditional distribution channels.*
- (4) Discuss the five benefits of using the internet within virtual distribution channels.*
- (5) If you were to start an online store, which products would you be able to distribute online? Provide practical examples to substantiate your answer.*



8.7 Reflection

Before you go on to the next study unit, reflect on the following questions:

- *How do you think you will be able to use the information that you have just studied in your current student life or future career?*
- *Was this study unit difficult to master? Why? Can you provide the definitions and explanations as required by the activities in this study guide?*
- *How long did it take you to work through this study unit?*
- *Are you still on schedule for the assignments and examination, in accordance with your study roster?*



8.8 Summary

In this study unit we explored the internet and the web, and how they differ. We looked at the advantages and the disadvantages of using the web for marketing. We then looked at how the internet has influenced distribution as a marketing function. We ended this study unit by looking at the internet and multiple channels.



Remember that electronic marketing channels are constantly changing because of the introduction of new technologies. During the time that has passed between the writing of this study unit and you actually reading it, there may already be new technologies in place. In order to stay ahead in your profession, it is important to keep up to date with these ever-changing technologies.



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