WHAT'S INVOLVED WITH DISTRIBUTION?

Look around you. How did the items in your surroundings get from their producers to where they are now? They’re there because of distribution.

Distribution includes all the activities involved in moving or transferring the ownership of goods or services from producers to consumers. In other words, distribution is the connecting link between producers and consumers. The main goal of distribution is making sure that the right product is at the right place at the right time for purchase by the consumers or industrial users. Products are made available by distribution.

Packaging activities include wrapping, hotting, or boxing, color-coding, price-marking, placing in appropriate containers, adding cushioning materials, and attaching shipping tags. To help you appreciate the importance of packaging, think of all the different ways in which the goods you buy are packaged for sale.

Stock handling. This distribution activity involves the loading, unloading, and handling of goods. It must be done carefully to prevent any damage to the goods. Many warehouses use mechanized devices to lift, move, and rearrange goods in order to make the job easier for workers and to prevent damage to the goods. Stock-handling activities include:

- Receiving—the process of counting and checking goods as they are received
- Sorting—categorizing goods by type, stock number, or other identifying characteristics
- Assembling shipments—gathering together goods requested from within the company or by outside customers

Distribution Activities

The different activities of distribution must work together if the business is to be successful and the needs and wants of consumers are to be met. Successful marketers provide consumers with what they want in the fastest, most efficient way. Let’s examine the activities involved in achieving this goal:

Packaging. Before most goods can be handled or moved, they must be packaged in some way. Packaging is defined as enclosing products in appropriate wrapping or containers. Packaging can serve several purposes:

- It protects products until they reach consumers
- It helps to sell products by making them appealing to consumers
- It can make products easier to ship or to store
**Objective A**

**Transportation.** The transportation activity is the act of moving anything from one place to another or the method by which something is moved. This activity is usually the most expensive part of distribution. Therefore, marketers must try to find the method that will give customers the best service at the most reasonable rate. The major forms of transportation are:

- **Rail carriers**
  Rail carriers handle heavy, bulky goods for relatively low fees. For example, Williams Brothers Lumber Company uses rail carriers to ship its lumber products.

- **Motor carriers**
  Trucks and other motorized vehicles are used to haul a wide variety of products. Trucks are faster but more expensive than rail or water carriers. Kmart owns its own trucks and uses them for quick deliveries.

- **Water carriers**
  Boats and ships provide low-cost, slow transportation and are often used for bulky products of agriculture, forestry, mining, and manufacturing. For example, Toyota ships automobiles to the United States by ship.

- **Pipelines**
  Pipelines can carry only liquids or gasses, but they are dependable and inexpensive. For example, natural gas is carried to your home or business by pipeline.

- **Air carriers**
  Airlines provide the fastest but most expensive form of transportation. They are used for fragile, perishable, or emergency shipments. For example, fresh seafood may be flown from coastal areas to markets in the interior of the country.

**Warehousing.** Warehousing involves placing goods in safe locations until they are needed or are ready to be sold. Many businesses use warehouses, storage and handling facilities, for that purpose. They are crucial to the distribution system since most products spend at least some time in storage. There are a number of reasons why products may need to be held in storage. They may be products that are produced year round but sold only in certain seasons of the year (e.g., holiday decorations), products that sell better after they have been aged (e.g., cheese), products that are being produced at a faster rate than they are being sold, products that are being held in the hope that their prices will go up, or products that have been purchased in larger amounts than are needed in order to get the best price.
**Inventory control.** Controlling inventory involves keeping track of how much stock is on hand, how much has been sold, and how much is on order. Inventory control has been called the watchdog of the distribution system. Because keeping track of stock is so important, many businesses have installed computerized cash registers which automatically feed sales data into the computer. This helps to keep inventory records up to date. It is still necessary, however, to do an actual count of the stock from time to time to determine the exact status of inventory.

**Management of distribution.** A distribution system must be managed effectively in order to operate efficiently. Some of the important decisions that distribution managers must make concern:

- **The channel of distribution**
  Management must decide whether the business will use a direct channel of distribution in which products go directly to consumers or an indirect channel of distribution in which products go through the hands of intermediaries.

- **The scope of distribution**
  Management must decide how widely the company's products should be distributed. The choices are:
  - **Intensive distribution**—widespread distribution of products such as chewing gum which consumers expect to be able to buy almost anywhere.
  - **Selective distribution**—distribution restricted to a certain area, used for products such as designer clothing.
  - **Exclusive distribution**—distribution confined to one dealer per area, used for products such as luxury cars.

- **The warehouse**
  Management must decide how many warehouses will be needed, where they should be located, whether they should be owned by the business or rented from another company, and whether they will be used only for storage or for storage and distribution.

- **The method of transportation**
  Management can choose from rail, motor, water, air, or pipeline methods, depending upon the product(s) to be transported, distance, customer preference, and time limits.

- **The level of stock**
  Management's ideal goal would be to keep just enough stock on hand to satisfy customers without being overstocked. Because customer demand is constantly changing, this is one of the more difficult decisions for managers to make.

- **The information system**
  Management may choose a manual system or an automated information system for tracking inventory. More and more companies are using computers to handle the information necessary for the efficient operation of the distribution system.

**Summary**
Distribution includes all the activities involved in moving or transferring the ownership of goods or services from producers to consumers. Distribution is a process which involves a number of activities which must work together. These activities include packaging, stock handling, transportation, warehousing, inventory control, and management.
ROLE OF DISTRIBUTION

Consumers do not give much thought to the process of distribution until they are unable to buy something they want, they receive damaged goods, or they wait weeks for an item that was promised in a few days. Marketers, however, give a great deal of thought to distribution. They realize that the way in which their products are distributed is important to the success of their businesses as well as the products themselves. Let's consider the reasons why distribution is important to marketing.

- Costs
  The costs of distribution activities make up about half of the total marketing costs. In the mid-1990s, physical distribution costs in the United States were more than $700 billion. This figure is expected to increase in the future.

- Time and place utility
  Without distribution, most sales could not take place. Distribution puts products where consumers can buy them. In other words, distribution provides products with time and place utility. Time utility is created when products are transported from the producer to the place where customers want to buy them. Time utility is created when products are transported at the right time for sale or held in storage until that time arrives.

- Sales volume
  There is a close relationship between the distribution system and sales volume. When orders are filled quickly and accurately, and items are seldom out of stock, sales generally increase. If delivery takes too long or costs too much, sales generally decrease. Some marketers view distribution as a sales tool to increase sales volume.

- Capital
  Efficient inventory control can keep the business from tying up too much capital tied up in stock. Companies cannot afford to stock too many or too few goods. If too much stock is on hand, storage costs add to the cost of the goods. The goods could also become outdated or stale. If too little stock is on hand, customers' needs cannot be met. Another function of inventory control is to identify slow-sellng goods. A supply of slow sellers in the warehouse ties up capital that could be better used to buy goods that will sell.

- Retention of customers
  An efficient distribution system can help a business retain customers. Some companies consider the distribution system to be part of their customer service program. Studies have shown that distribution service is only slightly less important than product quality in the minds of buyers. Buyers continue to do business with companies that fill orders quickly and accurately, give a consistent level of service, and provide a rerordering system that is easy to use.

- Profits
  Efficient distribution can increase overall profits. When a company can reduce its distribution expenses without reducing its service to customers, the company's profits can be greater. For example, if a company's net profit on sales is 1%, every dollar saved means the same to the company as if it had sold another $100 in goods or services.

- Product success
  The success of a company's products may depend upon the way in which they are distributed. Good products have been known to fail because of a poor system of distribution. For example, Texas Instruments introduced a personal computer to the market without setting up a good distribution system for it. Even though attempts were made to improve the situation, it was too late, and the computer had to be taken off the market. The company did not fail, but it lost the time and money invested in this particular product.

- Competitive tool
  A good distribution system can be a very effective competitive tool. When companies offer nearly identical products, differences in distribution methods can be very important. One company can gain a competitive edge over another by offering such distribution benefits as faster delivery, accurate billing, reliability, or economical service.
Factors Affecting Distribution Decisions

There is no one distribution system that can be used successfully by every business. Each business must put together the kind of system that is best for its purposes. Let’s look at some of the factors that affect a company’s decisions about its distribution system.

Company size. This is a very obvious factor affecting distribution. A large company would have a larger staff and more money to spend. It might also distribute more products over a larger area. A large company is more likely to own its own transportation equipment and warehouses and to have computerized inventory control. A small company would have fewer employees and a limited budget. Its decisions would involve leasing storage space and shipping by common carriers.

Product. The kind of product(s) the company produces affects distribution decisions. Most companies set up their distribution systems according to their products rather than trying to fit the products to the systems. One product factor that would affect distribution is whether the product requires special handling. In other words, is it a fragile product such as glassware, a perishable item such as fruit, a valuable product such as gold jewelry, or a dated product such as film? Such products may have special storage requirements such as being kept under lock and key or at certain temperatures and levels of humidity. The product also affects management’s choice of distribution channels. Products such as baked goods can be sold directly to consumers, while products such as shoes are better handled by distributors, or intermediaries. The size of the individual product and the quantities in which it is produced are other product factors which affect distribution decisions.

Demand. Demand for products affects their distribution. If demand for a product is fluctuating, the company may decide to rent temporary storage space for the product until it has a better idea of what regular demand will be. If a product has seasonal demand, but production goes on all year long, the company will probably own its own warehouse because of the length of time the product must be stored between seasons.

Target market. The business must know who the target market for the product is, where that market is located, and what size orders can be expected for the product in order to determine the best methods of distribution. For example, a producer of garden seeds can distribute them by sending catalogs to customers in all parts of the country. The seeds can then be grown, stored, and shipped from one central location. A producer of candy bars, on the other hand, would need to have warehouse space in many different locations in order to make that product available to customers all over the country.

Customer preference. The distribution system must not only be suited to the product, but it should be designed to meet the needs of the customer. The company must find out whether it is more important to its customers to have quick delivery at a higher cost or slower delivery at a lower cost. Will careful handling of goods be a high priority, or is a liberal return/exchange policy more important?

Law. Distribution systems must comply with government regulations. Transportation routes, rates, and services may all be regulated by state or federal laws. Shipments that stay within a state’s boundaries use intrastate transportation which is regulated by state law. Shipments that cross one or more state boundaries use interstate transportation which is regulated by the Federal Interstate Commerce Commission. Businesses are expected to become familiar with the laws in any state in which they produce, store, or ship products and to comply with those laws.

Level of service. Companies must decide what level of service they wish to offer in order to select an appropriate distribution system. Customer service is usually measured by the length of time required to fill orders, whether those orders can be delivered on time, and whether they can be filled from stock on hand. Level of service is affected by the amount of stock the company can afford to keep on hand. For example, one company found that it had been keeping a 99% stock level in order to offer a high level of service, but its profits could not support the expense of having this much stock on hand.
Objective B

Competition. The distribution methods used by competitors can be a factor affecting a company's distribution decisions. If customers seem to be satisfied with the competition's distribution methods, your company may decide to use the same methods or to improve on these methods slightly in order to compete. The competition's level of service is also a factor. Some companies offer very little service in order to keep their product prices low. Others offer extended service and charge higher prices for products to cover the added expense.

Intermediaries. Choosing a method of distribution is affected by whether there are intermediaries available to the firm. If no appropriate distributor or dealer is available, the company may have no other choice than to do its own distribution. If intermediaries are available, such factors as each intermediary's credit rating, sales record, management practices, and warehouse operations will affect the company's decision.

Costs. There are many different areas in which costs may be a deciding factor in distribution decisions. For example, the costs of owning or leasing several scattered warehouses must be compared with the costs of having a few that are centrally located. The costs of leasing warehouses must be compared with those of owning them. The costs of different kinds of transportation must be weighed. Inventory costs to be considered include the expenses involved in holding goods, in losing sales because of insufficient stock, and in maintaining equipment used to handle stock.

When all the factors that pertain to a company have been considered, distribution methods chosen, and the system put into operation, the distribution system should not be considered a permanent arrangement. Distribution is an area of marketing that must constantly be reviewed and adjusted. The company's product(s) may change, its sales may fluctuate, competitive products may enter the market, intermediaries may make changes, or consumer buying habits may shift. The company that wants to be successful must monitor its distribution system and adjust it whenever necessary.

Summary

Marketologists understand that the way in which their products are distributed is as important to their success as the products themselves. Among the reasons for the importance of distribution are the facts that efficient distribution

- makes up about half of the total marketing costs,
- provides time and place utility for products,
- can increase sales volume,
- keeps too much capital from being tied up in stock,
- helps retain customers,
- increases overall profits,
- promotes the success of products, and
- provides a competitive tool.

No one distribution system can be used by all companies. Some of the factors that affect a company's distribution decisions include the size of the company, its products, demand, target market, customer preferences, laws, competition, intermediaries, service level, and costs. The distribution system must be reevaluated constantly and adjusted to circumstances.

Review Questions

1. Identify five reasons that distribution is important to businesses.
2. Explain how each of the following factors affects distribution decisions:
   a. Company size
   b. Product
   c. Demand
   d. Target market
   e. Customer preferences
   f. Laws
   g. Level of service
   h. Competition
   i. Intermediaries
   j. Costs
DISTRIBUTION

DS LAP 1 • Career-Sustaining Level
1375 King Ave. • P.O. Box 12279 • Columbus, Ohio 43212-0279
(614) 486-6708