Sales, Distribution and Supply Chain Management

SEMESTER - 4

MASTER OF COMMERCE

BLOCK - 1

(Marketing Sepecialisation)

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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MASTER OF COMMERCE

Sales, Distribution and Supply Chain Management

Block 1

DETAILED SYLLABUS

Unit 1: Introduction to Sales Management **Page No. : 106 – 120**

Introduction, Concepts and importance of sales management, Role of Sales Management in Marketing, Nature and Responsibilities of Sales Management, Sales Management strategy.

Unit 2: Understanding Personal Selling and Sales Force Management **Page No. : 106 – 120**

Introduction, Objectives, Process of Personal Selling, Sales force management, Sales Planning and Policies, Sales force Structure and Design, Recruitment and selection of Sales Force, Responsibilities of Sales Management

Unit 3: New Trends in Sales Management **Page No. : 106 – 120**

Introduction, Sales Management Information System, Relationship Marketing, Role of E-commerce in Selling, International Sales Management, Challenges Faced by International Sales Managers

Unit 4: Channel management **Page No. : 106 – 120**

Introduction, Marketing Channels, Designing Channels, Selection and Recruitment of Channel Partners, Channel Motivation, Channel Relationships Management, Channel Evaluation, Information Systems for Channels

Unit 5: Wholesaling **Page No. : 106 – 120**

Introduction, Concept and Importance of Wholesaling, Types of Wholesalers, Functions of Wholesalers, Latest Trends in Wholesaling.

Unit 6 Basics in Retailing **Page No. : 106 – 120**

Introduction, Defining Retailing, Functions of Retailing, Classification of Retail Firm, Retail Insudtry in India- different Forms, Retailing Environment.

Unit 7: Emerging Concepts in Distribution Management **Page No. : 106 – 120**

Introduction, Indian Distribution Scenario at Present, Vertical Marketing System, Horizontal and Multi-Channel Marketing Systems, Understanding Distribution of services.

COURSE INTRODUCTION

This is the first course of MBA fourth semester Marketing specialisation Programme. This course “Sales , Distribution and Supply Chain Management” of MBA 4th semester will focus on the different aspects of Marketing. In this course we have briefly discussed about Sales and Distribution and Supply Chain Management of marketing. We have also discussed Distribution management, which refers to overseeing the movement of goods from supplier or manufacturer to point of sale and different activities and processes such as packaging, inventory, warehousing, supply chain and logistics etc.

This course consists of fifteen units.

The course has 15 units and is divided into two blocks: Block 1 and Block 2.

Block 1 deals with the introductory concepts of Sales and Distribution Management. This block Sales and Distribution Management provides an overview of the sales and distribution function. It discusses various aspects of the sales function ranging from various sales organization structures to the role of the sales manager in improving sales by hiring, training, motivating and leading the sales force and distribution function and discusses logistics and channel management, and emerging concepts in Distribution Management.

Block 2 concentrates on Planning demand & Supply, Supply Chain Management and Case Studies related to this course.

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. This will help you in making your learning more active and efficient. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your understanding.

BLOCK INTRODUCTION:

This is the first block of the course Sales , Distribution and Supply Chain Management" . The Block is divided into7 units and is primarily a learner oriented Self learning material, as it satisfies the requirements of the learners in the filed of Marketing.

This block comprises of the following seven units:

The first unit introduces us to Meaning and Concept of Sales Management

The second unit gives us a broad idea of Personal Selling and the management of Sales Force.

The third unit gives us an idea on the new trends in Sales Management

The fourth unit will help us in understanding the concept of Channel Management. It explains the concept of designing channels, selection and recruitment of channel partners, channel motivation etc.

The fifth unit gives us a broad idea about the concept of Wholesaling and its latest trends.

The sixth unit will help us in understanding the retailing and its environment.

The seventh and the last unit of this block explains about emerging concepts in distribution management. This unit explains history and evolution of Logistics and distribution system in logistics.

The Block is devided into seven units:

Unit 1: Introduction to Sales Management

Unit 2: Understanding Personal Selling and Sales Force Management

Unit 3: New Trends in Sales Management

Unit 4: Channel management

Unit 5: Wholesaling

Unit 6: Basics in Retailing

Unit 7: Emerging Concepts in Distribution Management

UNIT 1: INTRODUCTION TO SALES MANAGEMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Concept and Importance of Sales Management

- 1.3.1 Defining Sales Management
- 1.3.2 Objectives of Sales Management
- 1.3.3 Types of Selling

1.4 Role of Sales Management in Marketing

1.5 Nature and Responsibilities of Sales Management

- 1.5.1 Factors affecting Sales Management

1.6 Sales Management Strategy

1.7 Relationship between Marketing and Sales Management

- 1.7.1 Factors affecting Sales Management

1.8 Let Us Sum Up

1.9 Further Reading

1.10 Answers To Check Your Progress

1.11 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit you will be able to -

- define the Concept and Importance of Sales Management
- explain the characteristics and functions of Sales Management
- outline the difference between Sales Management and Marketing.
- outline the Factors affecting Sales Management.

1.2 INTRODUCTION

This is the first unit of the course “Sales,Distribution and Supply Chain Management”. This unit introduces you to the subject of sales management. Sales management means managing the sales people effectively and efficiently to increase the sales volume. Again, selling is the

process to make a sale.

Today's sales executives are professionals. They plan, build and maintain effective organisations and design and utilize efficient control procedure. Top managements hold the sales executive responsible for obtaining sales volume, handling the selling operation to earn more profit and to see that the business continue to grow. Companies spend a large amount of money for the training and development of the sales personnel. In this unit we are going to discuss about the different aspects of sales management, responsibilities of sales manager, objective and functions of sales management and difference between marketing and sales management.

1.3 CONCEPT AND IMPORTANCE OF SALES MANAGEMENT



Personnel: Group of people willing to obey orders.

1.3.1 Defining Sales Management

Sales management originally referred to the direction of sales force *personnel*. Later it has got a broader view including the marketing activities like advertising, sales promotion, marketing research, distribution, merchandising etc.

According to American Marketing Association, sales management means "the planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the sales force".

The American Marketing Association's definition has made sales management synonymous with the management of the sales force, but modern sales managers have considerably broader responsibilities. Sales managers are responsible for organizing the sales effort, both within and outside their companies. They are also responsible for participating in the preparation of information critical to the making of key marketing decisions like budgeting, setting quotas etc.

Sales management is the attainment of an organization's sales goals in an effective and efficient manner through planning, staffing, training, leading and controlling organizational resources. Revenue, sales, and sources of funds fuel organizations and the management of that process is the most important function.

The major problem in sales is the lack of effective sales management process. Through a systematic sales management process, a company can increase its sales volume.

1.3.2 Objectives of Sales Management

From the company's point of view, there are *three* general objectives of sales management, which are discussed as follows:

- **Sales volume:** Every organisation's main aim is to increase the market share. Again, sales management is responsible for the increase in sales volume. Sales manager sets the goal for the sales personnel and they try to increase the sale as per their capacity.
- **Contribution to profit:** Sales people increase the sales volume, which ultimately contributes to the profit of the company.
- **Continuing growth:** Continuous growth is most essential for any organisation to survive. With the increase in sales volumes, more profit can be generated. With more profit, growth of the organisation becomes sustainable.

1.3.3 Types of Selling

The selling process varies according to the nature of the selling task. It depends on the type of product which we are selling. Generally three types of selling are involved in selling process. They are order takers, order creators and order getters. Order takers were those people who respond to already committed customers. Order creators do not directly receive orders since they talk to specifiers rather than buyers. On the other hand, order getters attempt to

persuade customers to place an order directly.

Again there are three types of order takers; those are inside order takers, delivery sales people and outside order takers. These people are responsible for collecting orders. Order creators are also known as missionary sales people. They convince the customers and creates positive attitude towards the product or services in customer's mind. Finally, order getters are either front line sales people consisting of new business, organisational or consumer salespeople, sales support sales people who can be either technical support sales people or merchandisers.

- **Order takers:** Order takers can be again divided into three groups.
  1. **Inside order takers:** Here the customer has the full freedom to choose the product without the presence of any sales people. The role of the sales people is only transactional.
  2. **Delivery sales people:** The salesperson's task is only to deliver the product. Here the customer takes the purchase decision without interference of any sales people. For example, news papers, milk etc. are delivered to the door. In this case, the order is previously given by the customers and based on that order sales people delivers the product.
  3. **Outside order takers:** These sales people visit customers but their primary function is to respond to customer requests rather than actively seeking to persuade the customers.
- **Order creators:** Here, the sales task is not to close the sales but to persuade the customer to specify the seller's product. For example, medical representatives can be considered as order creators, who influence doctors to prescribe the medicines to the patients. These sales people have very good knowledge about product.



Persuade: Win approval or support.

- **Order getters:** Order getters are those sales people who persuade the customers to make a direct purchase. Examples of order getters are organisational sales people, consumer sales people, technical support sales people etc. They have very convincing power and customers listen to them.



CHECK YOUR PROGRESS

Q 1: State any two objectives of sales management.

.....

.....

Q 2: Give an example of,

(a) Delivery sales people

.....

(b) Order creators

.....

(c) Order getters

.....

1.4 ROLE OF SALES MANAGEMENT IN MARKETING

Today, the process of sales management has become very challenging. The top management holds the sales executives responsible for obtaining sales volume and for, handling the selling operation so as to make him/her contribute to profits, and to help growth in the business.

Sales managers have broad responsibilities. They recruit, select and train sales personnel, provide them reasonable goals, and motivate them to get the result. They coordinate the personal selling operations with other marketing activities. Nowadays the sales manager is expected to play a much more strategic role in the company and is required to make a key input into the formulation of company plans.

An essential sales leadership role is to establish a sense of purpose or vision and clear direction to get there. It takes direction from the marketing

strategy and is based on thorough research and a considered positioning of the company within the market place.

Following are the functions of a sales manager:

- **Sales planning and budgeting:** Sales manager performs the task of sales planning. Sales planning as a process involve predicting demand for the product and demand on the sales assets (machines, people, or a combination of both). Failure to plan always means lost sales. Planning ensures that when a consumer wishes to purchase the product, the product is available in the market. It also ensures that opportunities for additional sales are explored and the sales assets are available to exploit these opportunities. Planning should allow for meeting the increasing customer demand for more products, services and/or customization as the business is growing, but should also react quickly when demand decreases. Sales' planning improves efficiency and decreases unfocused and uncoordinated activity within the sales process.
- **Estimating demand and forecasting sales:** The sales manager should estimate the market potential for the industry and sales potential for the company before developing a final sales forecast on which to base all operational planning and budgeting for their sales force. If the sales manager can estimate the demand properly, he will be able to assign his sales force as per the requirements.
- **Determining the size and structure of the sales organisation:** It is the responsibilities of the sale manager to decide the number of sales people for the sales organisation. The sales manager should decide the job responsibilities of sales people, sales forecast, budgets, territory assignments, supervision and sales force performance etc. Depending on the size of the business, sales manager decides the number of sales people.
- **Recruiting, selecting and training sales people:** The sales manager recruits the qualified applicants for the employment. They select the desirable candidates and provide them the necessary training for the job. (We will discuss in detail in unit 4).

- **Allocating sales force efforts and setting sales quotas:** To effectively allocate sales force efforts, the sales manager must first design sales territories and then it should be compared on the basis of sales potential, which in turn decides the individual sales quotas. After sales territories have been determined, management may design a formal pattern, or routing, for sales representatives to follow in calling on customers. While setting the sales quotas, managers should set the realistic quotas for the sales people depending on the situation.
- **Compensating, motivating and leading the sales force:** A sales manager tries to motivate the sales force through different compensation process. These compensations may be of financial and non financial compensation. Financial compensation should include reimbursement of sales expenses and transportation. Non financial incentive may include the use of a company car, office space, secretarial help, and special company benefits such as life insurance, a retirement plan and health care etc.

  Another major function of the sales manager is to lead the sales force in proper direction. Sales force leadership ought to be proactive and flexible. Sales managers may need to adjust their leadership style, ranging from autocratic control to free reign style depending on the situation.
- **Measuring and evaluating sales force performance:** Sales force performance must be measured and evaluated to determine commissions and bonuses for sales people and sales managers and to make promotion decisions. The overall purpose of performance evaluation is to improve organisational profitability by improving sales force efforts. The process of sales evaluation should be systematic and free from biasedness.
- **Monitoring the marketing environment:** The sales manager should closely monitor the marketing environment. They should satisfy the target customers within constrains of a continuously changing marketing environment.

Modern sales executives are professionals. They recognise that their

main assignment is to build and maintain an effective sales organisation. They must be skilled in planning, coordinating and controlling to ensure that personal selling activities make their optimum contributions to the marketing effort.

Thus, the sales manager needs to perform the following duties and responsibilities in an organisation:

- Determination of sales force's objectives and goal.
- Forecasting the sales requirements and budgeting.
- Specifying the sales force organisation, sales force size, territory design and planning.
- Selection, recruitment and training of sales force.
- Motivating the sales force.
- Sales force evaluation and control.



ACTIVITY

1. Visit any business organisation and find the role of sales personnel.

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1.5 NATURE AND RESPONSIBILITIES OF SALES MANAGEMENT

A sales manager plays a vital role in the success or failure of an organization. He is the one who plays a pivotal role in achieving the sales targets and eventually generates revenue for the organization. A sales manager must be very clear about his/her role in the organization.

Let us understand the roles and responsibilities of a sales manager:

- A sales manager is responsible for **meeting the sales targets** of the organization through effective planning and budgeting.
- A sales manager can't work alone. The sales manager should have proper coordination with the sales executives and sales representatives. A sales manager must ensure the targets are realistic and achievable.

- The duties must not be imposed on anyone; instead it should be delegated as per interests and specializations of the individuals. A sales manager must understand who can perform a particular task in the most effective way. It is his/her role to extract the best out of each employee.
- **A sales manager devises strategies** and techniques necessary for achieving the sales targets. He/she is the one who decides the future course of action for his team members.
- It is the sales manager's duty to **map potential customers and generate leads for the organization**. He/she should look forward to generating new opportunities for the organization.
- A sales manager is also responsible for **brand promotion**. He must make the product popular amongst the consumers. A banner at a wrong place is of no use. Canopies must be placed at strategic locations; hoardings should be installed at important places for the best results.
- **Motivating team members** is one of the most important duties of a sales manager. He needs to make his team work as a single unit working towards a common objective. He must ensure team members don't fight amongst themselves and share cordial relationship with each other. Develop lucrative incentive schemes and introduce monetary benefits to encourage them to deliver their level best. Appreciate whenever they do good work.
- It is the sales manager's duty to ensure his **team is delivering desired results**. Supervision is essential. Track their performances. Make sure each one is living up to the expectations of the organization. Ask them to submit a report of what all they have done through out the week or month. The performers must be encouraged while the non performers must be dealt with utmost patience and care.
- He is the one who takes major decisions for his team. He should act as a pillar of support for them and stand by their side at the hours of crisis.
- A sales manager should set an example for his team members. He

should be a source of inspiration for his team members.

- A sales manager is responsible for not only selling but also **maintaining and improving relationships with the client**. Client relationship management is also his KRA.
- As a sales manager, one should maintain necessary data and records for future reference.

1.6 SALES MANAGEMENT STRATEGY

Creating a **sales management strategy** is one of the easiest ways to increase your revenue and profitability.

Sales management is about leading the people and process your company uses to sell to prospects and convert them into customers. Responsibilities include:

- Building the right sales strategy
- Hiring the right team
- Creating the right compensation plans, territories and quotas
- Setting the right projections
- Motivating your team
- Tracking revenue against goals
- Resolving conflicts
- Training and coaching sales reps
- Managing processes
- Getting the sale!

1.7 RELATIONSHIP BETWEEN MARKETING AND SALES MANAGEMENT

Marketing is a broader concept compared to sales management. Sales management involves a specialised set of responsibilities and activities within the larger field of marketing management. Generally, marketing philosophies consist of production orientation, product orientation, sales orientation and marketing orientation.

The marketing concept holds that the key to successful and profitable

business rests with identifying the needs and wants of customers and providing products and services to satisfy them.

Again, in case of sales orientation, the main issue here is not how to produce but, having products and to ensure that the products are sold.

An organisation's marketing team usually consists of two basic groups, *the field sales force* and *the head quarters marketing team*. In contrast to the sales force personnel who are out in their territories with customers, the headquarters marketing people provide support and service functions that can significantly help the sales manager in performing his or her job. These supports include advertising, sales promotion, sales aids, trade shows, product publicity, marketing research, forecasting, market development and public relation etc. Therefore, it is essential that to get optimum business, the sales and marketing functions should be integrated. Selling objectives and strategies are derived from marketing strategy decisions and it should be consistent with other elements of the marketing mix (product, price, promotion and place). Therefore by establishing friendly, cooperative relationships with the headquarters marketing managers, sales managers may obtain extra support and services to improve sales force performance.



CHECK YOUR PROGRESS

Q 2: Discuss the differences between marketing and sales management.

.....

.....

Q 3: What are the two basic groups of the marketing team of an organisation?

.....

.....

1.7.1 Factors affecting Sales Management

There are several factors which make the sales manager's job more complex. These are discussed below:

- **Intense foreign competition:** Because of the globalization, the sales people face competition from domestic as well as foreign companies. So they need to have knowledge about their product as well as their competitor's product.
- **Rising customer expectation:** Consumers are becoming more aware about their requirements and less tolerant of product and service limitations. Even though today's customers may accept some shortcomings, they will quickly switch to better products and services when they appear. Successful sales and marketing managers are now becoming less defensive about their own company's offerings and try to look at products and services from the perspectives of their most critical customers.
- **Increasing buying expertise:** Buyers are becoming increasingly skillful at obtaining value for their money. Therefore, the seller must try to build a long term relationship of trust, respect, and understanding with the buyer.
- **Revolution in computer technology and communication:** An electronic revolution is well under way in communication and computer technology. Sales managers cannot afford to miss out on this revolution because it offers great opportunities to win competitive advantages with customers. Among the important technological innovations for sales management are portable and desktop computers, videotape presentations, videoconferencing, mobile communication equipment and electronic sales offices. With the help of these aids, sales people can dynamically perform their task.



1.8 LET US SUM UP

In this unit we have tried to discuss in detail about sales management. Sales management means managing the sales force. It is a

very challenging profession. The top management of an organisation sets goal for the sales manager and the sales manager directs the sales people to achieve that goal.

Sales managers plan, lead and control the personal selling activities of an organisation. Although sales managers' responsibilities of the sales manager vary widely across companies, their basic duties are to prepare sales plans and budgets, set sales force's goal and objectives, estimate the demand,forecast sales, recruit, select and train sales people, and evaluate the performance of the sales personnel. Again, Sales people are responsible for the sale of goods and services. There are different types of selling like- order takers, order creators and order getters. Growth of an organisation depends on the proper functioning of the sales management.



1.9 FURTHER READING

1) Richard R. Still, Edward W. Cundiff, Norman A.P. Govoni(2017),*Sales Management- Decisions, Strategies and Cases,* Pearson Education

2) David Jobber, Geoff Lancaster,*Selling and Sales Management,* , Pearson Education

3) Havaldar Krishna K. , Cavale Vasant M. (2017) S*ales and Distribution Management,* Mc. Graw Hill Education

4) **www.**marketingmo.com/strategic-planning/sales-management-strategy/ accessed on 28.11.18



1.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (i) Increase of sales volume

(ii) Contribution to profit

Ans to Q No 2: (a) Delivery sales people = News paper hawker

(b) Order creators = Medical representative

(c) Order getter = consumer sales people

Ans to Q No 3: Marketing is a broader concept and sales management is a part of marketing concept. Sales management is concerned with only the sales of the product.

Ans to Q No 4: The two basic groups are:

(a) The field sales force and

(b) Head quarters marketing team.



1.11 MODEL QUESTIONS

Q 1: Define sales management and state two objectives of sales management.

Q 2: Explain the role of a sales manager.

Q 3: Write short notes on

(a) order takers

(b) order creators and

(c) Order getters.

Q 4: State the relationship between marketing and sales management.

Q 5: What are the factors that effects sales management?

Q 6: Say whether the following statements are true or false:

(a) Motivating the sales force is a responsibility of the production manager.

(b) Order getters approach the customers for a direct purchase.

(c) Foreign competition hampers in the growth of sales volume.

(d) Compensation and motivation to the sales people are very essential for the rise in sales volume.

*** ***** ***

UNIT 2: UNDERSTANDING PERSONAL SELLING AND SALES FORCE MANAGEMENT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Objectives of Personal Selling

- 2.3.1 Qualitative Objectives
- 2.3.2 Quantitative Objectives

2.4 Process of Personal Selling

2.5 Sales Force Management

- 2.5.1 Objectives of Sales Force

2.6 Designing a Sales Force

2.7 Sales Planning and Policies

2.8 Sales force Structure and Design

- 2.8.1 Sales force Structure
- 2.8.2 Sales Force Size

2.9 Recruitment and Selection of Sales Force

2.10 Responsibilities of Sales Management

2.11 Challenges in Personal Selling

2.12 Let Us Sum Up

2.13 Further Reading

2.14 Answers To Check Your Progress

2.15 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define the concept of personal selling.
- explain the objectives of personal selling
- discuss the process of personal selling
- outline the challenges in personal selling.

2.2 INTRODUCTION

In this unit we are going to discuss about personal selling. Personal selling is an important aspect of marketing and is a broader concept than salesmanship. Personal Selling is an overall activity and salesmanship is one aspect of personal selling. In fact, salesmanship is one of the skills used in personal selling. Personal selling together with other marketing elements such as pricing, advertising, product development, marketing channels and physical distribution is a means for implementing marketing programmes. However, personal selling efforts are largely obtained through salesmanship of various sales forces. J Shapiro defines personal selling, "it is the area to successfully persuade prospective customers to buy products or services from which they can derive certain benefits and thereby increasing their total satisfaction." Hence, personal selling is the primary relationship between the buyer and the seller and their interaction only results in sale.

2.3 OBJECTIVES OF PERSONAL SELLING

Personal selling objectives are related to the overall marketing plan, especially with the promotional plan. These objectives are influenced by promotional mix strategies followed by the company. These objectives of personal selling could be quantitative or qualitative. The quantitative objective would be emphasizing on the short- term company objectives whereas qualitative objectives are based on achieving long-term objectives and also to guide setting of quantitative objectives.

2.3.1 Quantitative Objectives

The quantitative objectives assigned to personal selling are short term and are adjusted from one promotional period to another. Usually, the sales volume objective is the main quantitative objective that sets the target for the promotional policies. All other quantitative personal selling objectives are related to the sales volume objectives.

Some of the quantitative objectives are given below:

a. To capture and retain a certain percentage of market share. For instance maintain 10 percent market share or increase sales by 2 per cent every year.

b. To obtain sales volume in ways that contributes to profitability. For instance profit before tax should not be less than Rs 500 million.

2.3.2 Qualitative Objectives

Qualitative objectives aim to achieve the firm's objectives over a longer period of time. These objectives are carried over from one period's promotional programme to the next. Depending upon the company's objectives and promotional mix, personal selling are generally assigned with the following types of objectives:

a) To do the entire selling job, when personal selling is the only promotional element in the promotional mix.

b) To serve existing accounts or customers in terms of order booking, stock position, requirements, schedule of supply and collection of payments.

c) To generate new enquiries and new prospects.

d) To convert new prospects into long –term customers.

e) To keep customers informed on changes in the product line and other aspects of marketing strategy.

f) To provide advice and assistance to members of distribution channels so as to increase sales and market share.

g) To collect information from markets, customers, distribution channels for use by the management.

h) To assist with the training of distribution channels' sales personnel.

i) To provide assistance in training of sales personal of distributors and other intermediaries.



CHECK YOUR PROGRESS

Q 1: Define Personal Selling.

.....

.....

Q 2: Fill in the blanks:

a. Qualitative objectives of personal selling are based on …….. objectives.

b. One aspect of personal selling is ……

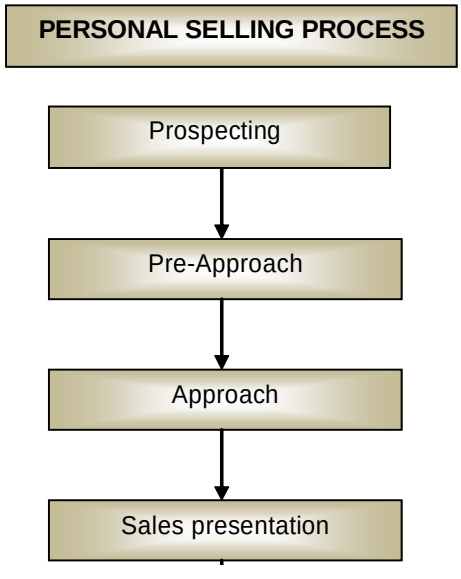
c. Quantitative objective sets the target for the …… policies.

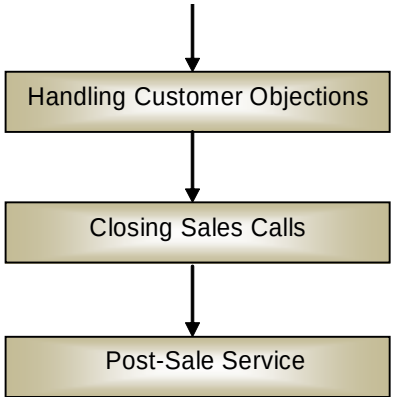
d. …….. provide assistance in training of sales personal of distributors.

2.4 PROCESS OF PERSONAL SELLING

You may have observed the process adopted by successful salespersons from insurance companies or companies selling consumer durables or non-durables. In order to make sales happen, they carefully handle the customer. They lead the customer through a process so that sale takes place. The elements of the personal selling process are:

Prospecting





Now, we will discuss the above elements of selling process in more detail:

a. **Prospecting:** Prospecting refers to locating prospective buyers. Good salesmen do not entirely rely on existing customers, but seek out new ones. They constantly search for 'prospects' or potential customers and rope in as many of them as possible. Prospecting is the step in the selling process whenever new customers are sought. Prospecting can be carried out with in the following ways:

i. *Identifying prospects and gathering leads:* Although the company may supply some leads, the salesman must have the skill to develop their own leads. They can develop leads from many sources such as:

- Current customers
- Dealers
- Suppliers, non-competing salesman, banks, credit agencies and club/similar organizations.
- Published data sources like directories, telephone yellow pages etc.

ii. *Qualifying the prospects and analyzing their purchases:* Salesmen have to screen the leads, throw out the poor ones and pick the better ones for further probing/making sales call. He could call up or write to the prospects before deciding whether to make a sales call. Prospects should be qualified by evaluating their financial ability, likely volume of purchase, specifications adopted, likelihood of continuous business, etc. The leads can

also be categorized into hot leads, warm leads, and cool leads, depending on their potential to become customers.

iii. *Using Websites:* Websites can be used for acquiring and qualifying leads. Salesmen can use websites of companies/ social network sites for acquiring leads and qualifying the prospects. A lot of details about the prospects can be collected by perusing the sites. Websites analysis is a valuable tool and can help select exactly those who warrant a personal sales call.

b. **Pre-Approach:** Pre-approach consists of planning and preparation. The salesmen have to meticulously plan the sales presentation. They must go through customer characteristics and the sales context as part of the preparation. The sales person should know how to greet the buyer to get the relationship off to a good start. The sales presentation has to be detailed with the exact needs of the customer. Securing appointments/sales interviews from the customer is also a part of the preparation.

c. **Approach:** Approach refers to the preliminaries and the initial part of the interaction in sales interviews before the substantive sales presentation commences. In particular, it includes the opening remarks in the presentation and the opening style adopted by the salesman in selling to the given customer. In general, a consultative style of selling is superior to a totally controlled one. The approach should facilitate this requirement.

d. **Sales Presentation:** The sales person has now to tell a product story to the buyer. The salesman has to make the actual delivery of the sales story/message/demonstration. The sales person should try to gain attention, hold interest, arouse desire, obtain action and endure satisfaction. In short this method is called AIDAS. Listening, probing, use of questions, persuasive interceptions are integral elements in the process. Handling and overcoming objections is also a part of it. The salesman must involve the customer in the presentation.

Companies generally develop *three* different styles of sales presentation. The *first* one is called as canned approach, which is a

memorized sales talk covering the main points. It is based on stimulus – response thinking, that is, the buyer is passive and can be moved to purchase by the use of the right stimulus words, pictures terms and actions. The *second* approach is the formulated approach which is based on stimulus-response thinking but first identifies the buyer's needs and buying style and then uses this approach to the buyer. The *third* can be named as need satisfaction approach which starts with a search for the customer's real needs by encouraging the customer to do more of the talking.

Sales presentation can be improved with demonstration aids such as booklets, flipcharts, slides, movies, product samples and computer based simulations. Visual aids can show how a product performs and provide other information about it. Product features and benefits can be explained better by the use of visual aids.

e. Handling Customer Objections: Consumers always pose objections during the presentations or at the time ordering for the product. Psychological resistance includes resistance to interference, preference for established supply sources or brands, reluctance to new idea, dislike of making independent decisions and so on. Logical resistance might consist of objections to the price, delivery schedule or certain product or company characteristics. To handle these objections, the salesperson needs to maintain a positive approach .He should allow the buyer to clarify objections. Handling overcoming objections is a part of the broader skills of negotiation.

f. Closing Sales Calls: The salesperson now attempts to close the sale. Some salespeople do not get this stage. They lack confidence or feel uncomfortable about asking for the order. Many a time they fail to recognize the right psychological movement to close the sale. Salespersons need to know how to recognize closing signs from the buyer, including physical actions, statements or comments and questions. Salespersons can use one of the several closing techniques.

g. Post Sale service: Post-sale service to the customers is another important element. Salesmen must promptly respond to service requests from the customers and follow them up with concerned individuals/departments of the company. In his article titled, '*After the sale is over*', Professor Levitt says that salesmen have to go beyond the immediate goal of the sale. He emphasizes the need for developing professional partnerships between the seller and the buyer. Only when this is achieved can the buyer-seller relationship bring profits to the company. It is not enough for a salesman to create a satisfied customer. There is a need to retain a satisfied customer through-post sale service.



CHECK YOUR PROGRESS

Q 3: What are the elements of personal selling process?

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2.5 SALES FORCE MANAGEMENT

Sales force management implies managing the processes of recruitment, selection, training, compensating, and scheduling the field activities of sales force.

Sales management is a vital sub-system of marketing management. It acts as a dynamic force and is acknowledged as the backbone of marketing. The ultimate objective of sales management is to influence the consumers of the target market to get sales orders. And a sales force serves as a company's personal link to customers.

2.5.1 Objectives of Sales Force

There are various objectives of sales force but the role of the sales force depends on whether a company is selling directly to consumers or to other businesses. In **consumer sales,** the sales

force is typically concerned simply with taking and closing orders. They are not responsible for creating demand for the product, since demand for the product has already been created by advertising and promotion but may provide the consumer with some product information. The individuals involved in consumer sales are often not concerned with maintaining long-term customer relationships. *Examples*: of consumer sales forces include automobile salespersons and the sales staff found in a variety of retail stores. In business-to-business sales, the sales force plays a completely different role.

Industrial sales forces may be required to perform a variety of functions. These may include prospects for new customers and qualifying leads, explaining the company is and what its products can do, negotiating prices, servicing accounts, gathering competitive and market information, and allocating products during times of shortages.

Within the business-to-business market, a distinction can be made between selling to retailers, industrial sales, and other types of businesses. The concerns and activities of the sales force tend to vary in each type of business market. However, the desires of the sales forces to establish a long-term relationship with each of its customers and to provide service in a variety of ways are common to all.

In **selling to retailers**, the sales force is not primarily concerned with creating demand. Since consumer demand is more a function of advertising and promotion, and the sales force is more concerned with obtaining shelf space in the retailer's store. The sales force relies on sophisticated marketing data to make a convincing presentation to the retailer in order to achieve its sales and marketing objectives. In recent years, the emphasis is shifting to customer satisfaction and profits. Advances in accounting systems are enabling the companies to find out channel profitability and customer profitability.

Sales objectives have to be fixed by the sales manager in respect of total sales force and for each sales-man, in terms of volume, market share or profit for the firm. If the objectives are once decided, then the size of the sales force has to be determined and this necessitates the detailed study of Job Analysis (i.e. Duties, abilities etc needed to perform), Job Description (i.e. Name of the Job, Nature etc) and Job Specification (i.e. Education Qualification, Experience needed etc.)

Both direct and contract sales force can be used by a company. Direct sales force consists of full or part-time paid employees who work for the company whereas Contract sales force consists of independent representatives, agents and brokers who are paid commission based on the basis of their sales.

The selling methods vary depending on the situation. In a simple case, a sales person may have to meet many persons to make a sale. In more complex way, sales team has to interact with a buyer group. Conference selling is involved when many complex things are to be explained to a large number of persons in the buying organization. Seminar selling occurs through educational seminars in which state-of-art developments are explained to the participants and the subsequent interaction initiates the sales. Therefore, the various strategies can be adopted to achieve the sales objectives.

2.6 DESIGNING A SALES FORCE

Sales forces are found throughout the business from the insurance industry to college recruiting. Therefore, a company must carefully consider how to design and manage its sales force in order to be successful in the marketplace since a company's survival and existence depends on the market and hence the sales force which maintains the link with the customers deserves the deepest thought in terms of setting objectives for it, strategy for it, and structuring it.

How businesses should design a sales force and how managers can effectively manage it is yet another important question. So, let us discuss

the designing of sales force:

When designing a sales force, a company must thoroughly deliberate several issues like the development of sales force objectives, strategy, structure, and compensation of the sales force in order to establish an efficient sales system. Sales force objectives are the specific goals that companies expect their sales representatives to achieve. Sales quotas or sales targets inform a salesperson about the specific objectives for a given period of time.

With respect to strategy, companies must use sales representatives strategically so that they approach customers at a time when they are most likely to buy. There are several approaches like an individual sales representative or a sales team can approach a particular individual buyer or a buyer group that can be used by salespeople depending upon which best fits the situation. As an alternative, the sales representatives can employ a technique called seminar selling, where a company team conducts an educational seminar for the customers about the company's developments.

Once the company decides on a sales approach, it should maintain a market focus. This means that salespeople should know how to analyze sales data, measure market potential, gather market intelligence, and develop marketing strategies etc. and finding the right resources to accomplish these goals is necessary while designing a sales force.

Below, are the steps required to be followed in designing a Sales Force —

Steps in Designing and managing a sales force:

1. Objective setting
2. Sales planning and policies.
3. Designing Sales Force: Structure and Size
4. Deciding Sales Force Compensation
5. Recruiting and Selecting Sales Force
6. Performance Rating Of Sales Force.

2.7 SALES PLANNING AND POLICIES

Sales management acts as the dynamic force behind marketing management. In a modern organization sales management centres round the management of sales force and sales efforts.

A well managed sales force in a marketing organization carries a lot of economies in operation as well as profitability. The two utmost important economies are Sales Planning and sales policy which are discussed below:

Sales Planning:

Planning is a managerial function chosen from the alternative courses of action. Sales planning are a part of marketing planning, covering sales forecasting and sales programmes to achieve sales goals and making a sales budget. Sales planning are deciding in advance a future course of action regarding the marketing or selling of the product- what is to be sold, how, when and by whom it is to be sold.

Sales planning adopt the technique of planning as usual and finds out ways and means to achieve the sales goals economically, efficiently, and at the right time.

A sound recruitment policy and procedure are essential for a great selling efficiency (The importance of recruitment is discussed in later pages) .And a selected salesman must have all the qualities through which a firm can attain all fortune, more turnovers, and more profit and then the firm makes progress.

The various ways and means for achieving the sales goals are:

1. Market research.
2. Product research.
3. Branding packaging etc.
4. Recruitment and training of sales personnel.
5. Allocation of sales territories and sales quotas.
6. Choice of channels of distribution.
7. Plan for advertising and sales promotion.
8. Provisions for warehousing and transport.
9. Provision for after-sales service.

10. Arranging of sales contests.
11. Pricing and all other activities of the sales organization.

Sales Policy :

Sales policy works as the basic guide to the thinking and action taken by the executives within the sales organisation under a given set of circumstances. A sound sales policy covers the following important items:

- Products or services to be sold: type, number, variety and quality.
- Customers of the products:Types of customers, Size and location of customers.
- Branding and packaging policies.
- Selection of channel of distribution.
- Advertising and sales promotion.
- Prices of products-sale price.

The backbone of successful sales policies is consumer satisfaction and consumer goodwill, based on reputation for reliability and fair trade practices.

Finally, Sound sales policies, reliable quality of goods and fair trade practices are the three pillars of firm's credibility and goodwill.

Sales force organizations refer to the type and the size of sales force. The type determines the degree of controllability while the size has profit implications. If the sales force is large the organization has to decide about the kind of specialization and co-ordination in use. The structure and size are discussed below:

2.8 SALES FORCE STRUCTURE AND DESIGN

2.8.1 Sales Force Structure

There are no such structure and size of sales force but sales forces are regularly assigned particular sales territories. Various factors are taken into account when deciding the sales force for a particular territory. These include the physical size of the force for a particular territory, transportation links within a territory, purchasing

power of consumers and their living standards. Therefore, a sales force is deployed according to the geographical features of the territory and product or consumer requirements.

Strategy determines structure. An appropriate strategy for the organization is arrived and then necessary changes required for the existing structure are carried out so that the structure is capable of executing the strategy. If the company sells one product line to one end using industry with customers in many locations, the company would use a territorial sales force structure. If the company is selling many products to many types of customers, a market specialized sales force structure may be more appropriate. The structure needs to be changed by established companies as they expand and economic conditions change.

2.8.2 Sales Force Size

After formulating the objectives and the structure of the sales force, a manager needs to determine the number of people needed in each sales team. Increasing the size of sales force is a crucial decision. If the manager hires more people than the costs would go up and the profit would come down. On the other hand, if fewer people are hired then the work load on each person would increase making it difficult for them to meet the deadlines. Therefore, an optimum number of sales people should be hired to carry out the selling activities of the firm. Basically there are two methods employed by the sales manager to determine the **size of the sales force,** *equalized workload method* and *incremental productivity method.*

Sales managers rarely rely on one method to determine sales force size. Instead, they combine their own opinions on other issues such as economic fac-tors, industry trends, growth of the market, and the needs of customers with these formula methods to come up with the optimal size.

Let us discuss the two methods below:

Equalized Workload Approach ;

The **workload approach** is based on the total time required to cover the territory divided by the selling time available to one salesperson. Here is the formula for using the workload approach:

For example, assume that a firm has 4,000 total customers (3,000 current custom-ers and an estimated 1,000 potential customers). Sales analysis has revealed that sales calls average 1.5 hours and that each customer should be seen seven times a year. Further examination of records has revealed that each salesperson has 2,000 hours of selling time available per year. The computation for this problem is: (3000+1000) x 7x15= 42000\2000 = 21

If the company now has 18 people in its sales force, 3 new people should be hired. The major advantage of the workload approach is its simplicity. Successful appli-cation of the technique depends on the sales manager's ability to estimate the ideal frequency of calls and the number of potential customers. However, the workload approach fails to consider either the cost of increasing the work force or the costs and profits associated with each sales call.

Incremental Productivity Approach:

The second method of determining the size of the sales force is by incremental produc-tivity. According to the **incremental productivity approach,** a manager should increase the number of salespeople as long as the additional sales increase is greater than the additional increase in selling cost. Companies with good records know the cost of training a salesperson. This cost, plus field expenses and the salary of a new person, can be compared with the revenue generated by sales activities. Unfortu-nately, many companies do not have these cost data available.

2.9 RECRUITMENT AND SELECTION OF SALES FORCE

Recruitment and selection process hold an important role for building a strong sales force performance. This process requires the company to invest through human capital as an important resource. The objective of this process is searching for qualified candidates to fulfill the right positions and hopes that they can make long-run returns for the company. Every single step in recruiting and selecting candidates should be taken carefully in order to get the right person in the right position. There are a few problems associated with inadequate implementation of recruitment and selection process such as:

1. Inadequate sales coverage and lack of customer follow-up
2. Increased training costs to overcome deficiencies
3. Supervisory problems
4. Higher turnover rates
5. Difficulties in establishing relationship with customers
6. Suboptimal total sales force performance

The Company that acknowledges these problems, tries to minimize then and set their own approach. Therefore the process of recruiting and selecting people would differ from one company to another as it depends on type of industry, the size of the company, company's activities, and the needs of the company such as the goals of the company which will be achieved in a certain period of time, short term or long term profits and the sustainable growth of the company.

In its process, clearly defined of job qualifications and job descriptions will help the company to acquire the right person in the right position. This will make the recruiter's job easier to find the most suitable person for the company because it limits and narrows down the number of applicants based on certain requirement of the company.

Performance Rating of Sales force:

The quality of sales force can be measured effectively by proper evaluation of sales performance. Sound evaluation assures superior

performance. There are *three* reasons to appraise the performance of sales people.

Targets are compared with actual accomplishment. Sales quotas, expense control are the usual targets for the purpose of evaluation. Moreover, all the evaluation should be forward-looking and aim at future and improved performance. Performance evaluation should be done periodically and promotion, pay rise, rewards should be offered to the deserving salespeople.

Effective measures:

Salesman's performance can be measured by a number of factors, such as ability to sell a satisfactory volume, ability to sell at a profit, ability to sell at a low cost, knowledge of products, policies, and competition ability to attract and hold customers etc. Performance evaluation can be better explained through the chart drawn below:

PERFORMANCE EVALUATION

1) Qualitative Bases:

- Salesman's knowledge of the product.
- Relation with the channel members
- Personality and attitudes, e.g. cooperativeness etc.
- Personal appearance and health.

2) Quantitative bases:

A) Output Factors:

- Sales quotas achieved
- Orders generated and executed
- Expenses like traveling cost, sampling cost, Selling cost etc.

B) Input factors:

- Calls per day.
- Direct selling expenses as a percentage of sales volume.
- Non-selling Activities viz. Display, meeting with dealers

2.10 RESPONSIBILITIES OF SALES MANAGEMENT

Sales management has dual responsibilities. These are as follows:

- Generating sales volume, and

- Developing sales manpower.

Managing the sales force itself involves a number of key areas including performance measurement, selection and training of sales people and motivational methods. Effective management of sales force requires leadership plus administrative skills in planning, organizing, directing, motivating and controlling the personnel selling portion of the promotion mix. There are various procedures and steps that can be utilized to effectively manage a sales force. Basically, there are four main steps involved in managing a sales force:

- Training of the sales representatives
- Supervising the sales representatives
- Motivating the sales representatives and
- Evaluating the sales representatives.

(a) Training is the first essential step in managing a sales force. New sales representatives who are sent directly into the field with little or no training beforehand are rarely successful. Properly selected persons must undergo adequate training before they are put on their selling jobs as the Customers expect a sales representative to be knowledgeable about not only the product they are selling, but also about the customers needs. Thus, training is necessary to secure effective and efficient sales.

(b) Supervision of sales representatives is also a critical area in managing a sales force. In general, sales representatives who work on commission can be supervised less closely than those who are salaried. Supervision must be tailored to needs of the individual salesperson just as selling process must be tailored to individual customers.

(c) Motivating sales representatives are another area that is vital to managing a successful sales force. Motivation is the act of stimulating someone or oneself to get a desired course of action, to push the right button to get a desired action. It ignites the will to work. In selling jobs, motivation to make sales is very important.

(d) Evaluating sales representatives is another step in managing a sales

force. Evaluating sales people frequently involves the use of sales reports, which tell the managers exactly how competent the sales representatives are in selling products.

Thus, effective management of sales force requires leadership plus administrative skills in planning, organizing, directing, motivating, and controlling the personnel selling portion of the promotion mix.

2.11 CHALLENGES IN PERSONAL SELLING

Personal selling is the dominant mode of communication in industrial markets. In consumer markets as well, personal selling is used when the unit price of the product is high, there is high perceived risk of purchase and the customer's knowledge level is low. Though it is the most expensive method of communication, it undeniably gives a superior opportunity to interact with the customer. However, personal selling as a function is having some challenges as outlined below:

- The face-to-face interaction between a seller and a buyer is very flexible but the flexibility comes at a cost.
- A sale on an average takes six visits but good salespersons visit their clients even when they know that the client is not going to buy in the near future.
- The nature of the personal selling function is changing. Companies are reducing the size of their sales force due to greater buyer concentration, moving towards centralized buying and high costs of field sales team.
- More and more companies are collecting purchase requests from their departments and divisions and are buying from central locations. Concentration of buying power into fewer hands has increased the importance of relationship management through key account sales teams who service the accounts of major buyers in case of industrial markets.
- Few salespeople sell products that are clearly superior to the competitors on most criteria. Salespeople need to capitalize on what advantages their products have over similar competitive offerings. It

becomes challenging when competitors product are also good.

- Industrial buyers are experts in their area of operations and are very clear about what they are looking for in the product. Their choice criteria are clear and precise. Customers in the consumer market are also developing clarity and precision in their choice criteria.



CHECK YOUR PROGRESS

Q 4: Eliminating calls on non-buyers can also be defined as:

a. Suspecting
b. Pre-approach
c. Customising
d. Prospecting

Q 5: What is the full form of AIDAS?

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2.12 LET US SUM UP

In this unit we have discussed in detail the topic personal selling.Personal selling does not happen automatically. It has to be executed through a process. Customers needs are to be understood. The products need to be related with the customers decision making process, customers satisfaction needs to be fulfilled and this is a challenging task. So, in this unit we have discussed the following:

- Personal selling is the primary relationship between the buyer and the seller and their interaction only results in sale.
- The objectives of personal selling could be quantitative or qualitative.
- Elements of personal selling process is a follows:
  a. Prospecting
  b. Pre-Approach
  c. Approach

d. Sales Presentation

e. Handling Customer Objections

f. Closing Sales Calls

g. Post Sale service

- The sales force objectives are based on sales objectives and sales budget. The structure governing the sales assignment deals with the number of salespersons. Again, sales force may be organized on the basis of allocation of territories and the development. The process involves recruitment which requires proper selection, induction and training of sales force.
- We have also discussed the challenges in personal selling.



2.13 FURTHER READING

1) Richard R. Still, Edward W. Cundiff, Norman A.P. Govoni(2017),*Sales Management- Decisions, Strategies and Cases,* Pearson Education

2) David Jobber, Geoff Lancaster,*Selling and Sales Management,* , Pearson Education

3) Havaldar Krishna K. , Cavale Vasant M. (2017) S*ales and Distribution Management,* Mc. Graw Hill Education



2.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Personal selling is the primary relationship between the buyer and the seller and their interaction only results in sale.

Ans to Q No 2: a. long term b. Salesmanship c. promotional d. qualification

Ans to Q No 3: Elements of personal selling process is a follows:

a. Prospecting

b. Pre-Approach

c. Approach

d. Sales Presentation

e. Handling Customer Objections

f. Closing Sales Calls

g. Post Sale service

Ans to Q No 4: d

Ans to Q No 5: Attention, Interest, Desire, Action and Satisfaction (AIDAS)



2.15 MODEL QUESTIONS

Q 1: Define personal selling.

Q 2: Distinguish between qualitative objectives and quantitative objectives.

Q 3: Discuss the challenges in personal selling.

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UNIT 3 : NEW TRENDS IN SALES MANAGEMENT

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Sales Management Information System

3.4 Relationship Marketing

3.5 Role of E-commerce in Selling

3.6 International Sales Management

3.7 Challenges Faced by International Sales Managers

3.8 Let Us Sum Up

3.9 Further Reading

3.10 Answer to check your progress

3.11 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe sales management information system and its important aspects
- explain the meaning of relationship marketing and its difference from transactional marketing along with the factors that advocates relationship marketing
- explain the various types of e-commerce and the role of e-commerce in selling
- discuss the meaning of international sales management and the formulation of strategies at foreign market
- learn about the various types challenges faced by international sales manager.

3.2 INTRODUCTION

The dynamics of market environment are ever changing with the advent of new technology and changing market scenarios. Expansion of

market into global spheres, technological revolution, diversity in sales force, emergence of relationship marketing, and cultural shifts have made it imperative for sales manager to understand the emerging trends in sales management in order to maintain pace with the changing environment.

3.3 SALES MANAGEMENT INFORMATION SYSTEM

Sales management is the process of managing the sales operation of a firm through proper planning of sales operation, designing and implementing sales technique, and developing a trained sales force in order to meet the sales goal. American Marketing Association defines Sales Management as, "The planning, directing and controlling of personal selling including recruiting selecting, equipping, assigning, routing, supervising paying and motivating as these tasks apply only to the sales force".

In order to manage sales process, strategic information systems are designed to keep track of the sales record which helps the sales manager in making pivotal decisions for attainment of the sales goal of the firm. These reports help the sales manager in forecasting sales trend and in making necessary changes to cope up with the prevailing scenario and to assist in prudent decision making.

Thus, sales management information system facilitates the sales managers to attain the sales target set by the top management by helping them in making strategic decisions regarding sales territories, potential customers, promotional schemes, suitable products for specific market segments, allotment of territories to sales personnel etc. It provides information regarding past sales which helps the sales manager in projecting future trends by product segment, geographical location, sales personnel, customer segmentation etc.

Important aspects of sales management information system:

1. **Reports:** Reports help in monitoring information and in analyzing the data available for performing problem analysis and in making crucial decisions. Detailed sales report highlighting the sales scenario of the company assists in strengthening the sales management of the

company. There are various types of reports that sales people needs to prepare. They are as follows:

a. **Daily Reports:** The daily reports are prepared by the sales manager where they state their name or employee code, the date, the territory which they worked on during that particular day, the products they pitched to the customers and the number of orders received during the day. In addition to these it also includes the competitors' activity in the market place so as to provide an idea regarding the change in marketing plans in order to increase the profit margin of the company. It is essential to maintain the daily reports as sales people are mostly in the market. These reports provide a connecting link between the sales person, customer and the market. It also acts as a tool for continuous monitoring of sales activities by the management.

b. **Weekly reports:** These reports are prepared by the sales person providing all the information of the week such as places visited during the week, information about distributors and dealers, volume and value of product that was dealt within the week. In addition to these, it also mentions the competitors' activities such as their schemes, prices, products etc.

c. **Tour Programme:** These reports are prepared by the sales representative to inform his or her immediate supervisor regarding the location visited and expenses that are to be incurred by the sales representative during the sales visit. The sales representative can finalize his visits only when the tour programme is approved by the sales manager.

2. **Monthly Performance Review:** The monthly performance reviews are prepared either monthly, quarterly, or annually by the sales representative. It includes the previous tour cycle date wise and the plan for the next tour cycle. It is submitted to the sales manager who reviews it for each sales representative.



CHECK YOUR PROGRESS

Q 1: Define Sales Management Information System as per American Marketing Association.

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Q 2: What are the various types of reports and how do they help the sales manager?

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3.4 RELATIONSHIP MARKETING

The term 'relationship marketing' was first used in America in the early 1980's. Relationship marketing fosters the development of a long-term relationship with customers by understanding their needs, wants, behaviour and buying attitude. It is a strategic move by marketers to build in customer loyalty, trust and long-term customer engagement rather than focusing on a one time sale transaction. The implementation of relationship marketing strategy requires the development of an effective two way communication process between suppliers and customers using technological assistance and analyzing customers' purchases and profitability.

According to American Marketing Association, "Relationship Marketing is marketing with the conscious aim to develop and manage a long term and/or trusting relationship with customers, distributors, suppliers, or other parties in the marketing environment".

Pathmarajah (1993) has defined relationship marketing as "the process whereby the seller and the buyer join in strong personal, professional and mutually profitable relationships over time"

Transactional Marketing v/s Relationship Marketing:

In today's era, firms are practicing relationship marketing instead of the traditional transactional marketing. Both of these marketing strategies are contradictory to each other. The table below shows the difference between transactional marketing and relationship marketing:

Transactional Marketing	Relationship Marketing
Focuses on single objective of selling the product/service.	Focuses on building relationship for results
Short term thinking aiming at minimal profit on the spot.	Long term thinking aiming at high profit in the long run.
Emphasis is on physical product or services to be rendered.	Emphasis is on customer expectation and perception from the products/ services
Rewards for doing deals.	Rewards for maintaining relationships.
Customer contact is less.	Customer contact is high.
Sale deed is the end.	Sale deed is the beginning.

Why Relationship Marketing?

Now the question is why relationship marketing is becoming more important than the traditional transactional marketing? This is because of the changing marketing environment. Various factors like liberalization of government policies, globalization, and technology upgradationhave made industries face tough competition and in order to survive in this cut throat competition companies go for relationship marketing. The following are the factors that advocatethe application/need of relationship marketing strategy in today's age.

- Lack of differentiation among products due to easy replication technique for which firms have to keep on adding new services along with the basic product to compete. Even then, imitation has become so easy that companies need to retain old customers along with acquiring new ones in order to maximize profit.
- Higher cost of acquiring new customers has compelled firms to retain old ones and maintain a symbiotic relationship with existing customers through relationship marketing. The new customers are the most expensive one as companies have to spend a lot in advertisement and other forms of promotion in order to sell a product to the new customer. It is 5 to 6 times costlier than selling to old ones. The latter also ensures profitability as the value keeps on increasing with each

purchase and chances to buy in the future also increases which will ultimately cut down the company's' advertisement cost.

- Presence of large number of providers for products/services has increased competition in the market. Customers now are more price-sensitive and rich in information. The availability of the ample amount of choices has made relationship marketing an important tool to achieve competitive advantage.

5 E's of Relationship Marketing:

Relationship Marketing is characterized by 5 E's. They are:

a. Effective

b. Efficient

c. Enjoyable

d. Enthusiastic

e. Ethical

Companies should follow these 5E's in order to offer value to customer both personally and professionally, to provide better and unique solutions to customers' requirements, and to help customers in their buying objective to develop a trustworthy relationship.



CHECK YOUR PROGRESS

Q 3: When was the term relationship marketing first used?

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Q 4: What are the 5E'sof Relationship Marketing?

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3.5 ROLE OF E-COMMERCE IN SELLING

Meaning of E-Commerce:

E-Commerce is the use of electronic mediums like internet, mobile phones, telephones, fax machine etc. to carry on business activities and transfer information and funds for the smooth flow of business functions.In

common terms, it is defined as a process of buying and selling goods online. Electronic mediums, particularly the internet, are increasingly becoming popular and have emerged as an integral part in modern day business. It has helped producers to connect with the customers in order to promote and sell products. Internet has become an important marketing tool that helps businesses to cut down their promotional cost while reaching to a wide range of customers. Companies can now directly connect with their consumers at one go, surpassing middlemen and extensive distribution network.

There are basically 6 types of e-commerce with different features. They are:

1. **Business-to-Business (B2B):** It includes electronic transaction of goods and services from one business to another. Businesses like software companies, office furniture and supply companies, document hosting companies etc fall under B2B category of ecommerce. Eg: Boeing.
2. **Business-to-Consumer (B2C):** It encompasses electronic business relationship between business and final consumer. It is similar to the traditional retail model but business is conducted online rather than through a physical store. Eg: Flipkart
3. **Consumer-to-Consumer (C2C):** It includes transaction between consumers through electronic medium. These are conducted through a third party who is the provider of the online platform where such transaction between customers takes place. Eg: OLX
4. **Consumer-to-Business (C2B):** It is a reverse form of transaction provided by online commerce where consumers provide their products and services to companies who are looking for it.
5. **Business-to-Administration (B2A):** It includes electronic transaction between companies and public administration. Various services are provided in the area of social security, employment and other government related operations through B2A. These transactions are increasing with the growing investments made in e-government.
6. **Consumer-to-Administration (C2A):** It includes transaction between

individuals and public administration conducted online. Its applications include filling tax returns, information and payments about public services and e-health etc.

E-Commerce has a huge role in today's selling scenario. The varied application of e-commerce in selling has made it an indispensable part in all type of businesses. Following are some of the important roles played by e-commerce in selling:

1. **Global Presence:** The major merit of e-commerce is its ability to make a global presence without making any major investments for physical presence. Companies can now sell all over the globe and surpass the limitations of geographical barriers. Along with that customers also now have a varied choice and they can obtain all information regarding the products and services and compare between sellers regarding price, offers, quality regardless of locations.
2. **Encourage customers to buy:** E-Commerce helps companies to showcase their best selling products along with reviews and feedback from other users which help to attract new buyers. With the help of attractive pictures and videos an image can be created in the mind of the consumers which motivates them to purchase.
3. **Helps to study consumer buying behavior:** E-Commerce allows companies to study the buying habit of customers through which they can provide tailor made products and services to customers thus boosting the company's sales. By providing the desired products and services it also leads to higher customer satisfaction thus fostering a long term relationship with the customers.
4. **Eliminate time limitation:** E-Commerce surpasses the limitation of fixed timing for selling as in physical stores. Thus it helps in increasing the sales by boosting the number of orders and also makes it convenient for customers to make purchase at any time that is suitable to them.
5. **Targeting potential customer:** E-Commerce do help in locating potential customers by gaining access to data analysis about customers who visit the website for products or services. Through e-

commerce the customer's name email address and phone number can be easily collected and this can be used to communicate with the customers for making sales.



CHECK YOUR PROGRESS

Q 5: What is E-Commerce?

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Q 6: What are the various types of E-Commerce?

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3.6 INTERNATIONAL SALES MANAGEMENT

The advent of globalization has brought in ample opportunities for companies to expand their businesses. There are various factors like increasing competition, changing customers' needs, stagnation of demand in the domestic market, and gaining economies of scale which compel companies to expand their business into international sphere. The multinational companies and other business houses having foreign presence require international sales management to formulate and implement marketing policies in each foreign market as the political, legal, social, and economic contextsof every country are different. Variation in the marketing environment makes selling in the international market a challenging task.

International sales management aims to have a thorough understanding of the company's operation in the global context and devise strategies accordingly.The strategies need to be formulated regarding the mode of entry, marketing mix, selling approaches etc. It helps in understanding the needs of the foreign market, obtaining distributors and dealers in the international market, maintain proper relationship with them as well as monitor changes in the international marketing environment.

The companies operating in the foreign market follow various structure of selling like long distance selling, piggybacking, selling through intermediaries, using direct sales force etc. The selection of the sales

structure depends on the type of business and the marketing scenario in the host country. The sales manager looks into all the important aspect before deciding on the sales structure in the foreign market.

Formulation of Sales Strategy at each foreign market:

International Sales Management of an organization is responsible for the formulation of various strategies for the company to succeed. The difference pertaining in the foreign marketing environment demands for the sales strategies to be devised accordingly. The formulation of sales strategy at each market level is described below:

- **Sales Job Description:** The job descriptions for sales job are different in every country. Duties and responsibilities assigned in each country are different from the other as the working style in every country differs from one another. For instance, the Japanese do believe that job description can come by learning and hence it is suggested that the sales manager job should be properly described whereas in some countries job description does not exist. Thus according to the nature of the international market the sales job description is planned.
- **Recruitment and Selection:** The recruitment and selection of salesperson is an important activity of international sales management. Multi-step selection procedures are to be adopted in international markets. The process of recruitment and selection is crucial as each market has different selling approach and thus the requirement of sales person in each market is different from the other. Companies need to find suitable candidate as the image of the company is dependent on the selection of appropriate candidates.
- **Sales Training:** Proper training is required to help people master in new skills and apply new knowledge. The level of technological development, cultural differences, and sales procedures followed in the foreign market makes it imperative to provide training to suit the marketing environment. Thus proper strategy is to be devised to provide the required training for the business to succeed.

International Sales Management is not just the expansion of domestic sales management. Companies in order to sustain in the foreign market

need the management of overseas sales to be locally directed. Thus International Sales Management is an indispensable part for companies whose selling activities are carried on all over the world.



CHECK YOUR PROGRESS

Q 7: Why do companies go for international expansion of their businesses?

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Q 8: Why is the formulation of recruitment and selection important for international sales?

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3.7 CHALLENGES FACED BY INTERNATIONAL SALES MANAGERS

International Sales Manager plays a pivotal role in planning, organizing and coordinating the sales activities of the company in the foreign market where business is carried out. There are various challenges faced by the sales manager while conducting business internationally.

Some of the important challenges are described below:

1. **Economic Factors:** The economic system of a country is a major factor to be considered while planning sales activity in the foreign market. Traditionally there are two types of economic systems: capitalist economies and state owned systems. In between these two are the mixed economies. The level of economic development of each country is different and as such sales manager needs to plan according to the level of income of the people. The differences in currency between nations and the exchange rate fluctuations are to be looked by the sales manager before planning the selling function. The economic scenario in the host country needs to be properly analyzed to develop an appropriate marketing strategy.

2. **Cultural Factors**:Culture has a profound effect on the lifestyle of people and behavioral patterns and as such the market patterns also differ. The cultural factors are complex and difficult to understand. What may appeal to people in one country may be unappealing to people in some other country.The cultural differences have an impact on the marketing decisions. The differences in language, religion, social attitude and behavior make it difficult for sales manager to simply go for extension of the domestic marketing strategy.
3. **Political Factors:** The political environment of a country needs to be properly examined by the international marketer before deciding on the marketing strategies. The foreign business may face political problems mainly because of political sovereignty. Such issues lead to intervention in the affairs of the business. The change in government also leads to change in rules and regulations which may bring in another challenge for the international marketer.
4. **Legal Factors:** The variation in legal rules and regulations of the host country poses a challenge to the sales manager. International marketers must be aware of the various laws, treaties and international conventions. Laws related to property such as patents, trademark and the like are to be taken care of by the international manager.
5. **Managing the International Sales Force:** The management of the international sales force is a difficult task. The sales force must possess qualities which helps the business to grow in the international market. Sales manager must make proper selection of the sales force and provide necessary training which is crucial for the success of the business.
6. **Decision Making Ability:** The sales manager must possess decision making ability. The risk in the international market is very high and as such taking correct decision at the right time is a challenging task for the sales manager.

Thus, the role of International Sales Manager is very challenging. International Sales Manager must understand the various environmental changes, risk, difficulties and obstacles which they have to encounter in the foreign markets.



CHECK YOUR PROGRESS

Q 9: Why is decision making ability important for international sales manager?

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Q 10: How do legal factors stand as a challenge for the international sales manager?

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3.8 LET US SUM UP

In this unit we have discussed the following aspects—

- The changing marketing environment like technological changes, cultural shifts, expansion of market into global sphere, and sales force diversity has made it imperative for sales manager to understand the emerging trends in sales management.
- Sales management is the process of managing the sales operation of a firm through proper planning of sales operation, designing and implementing sales technique, and developing a trained sales force in order to meet the sales goal.
- In order to manage sales process strategic information systems are designed to keep sales record and help sales manager in attaining their goals. This sales management information system provides information regarding past sales which helps the sales manager in projecting future trends by product segment, geographical location, sales personnel, customer segmentation etc.
- Another new trend in sales management is the concept of relationship marketing. Relationship marketing fosters the development of a long term relationship with customers by understanding their needs, wants, behavior and buying attitude. It is a strategic move by marketers to

build in customer loyalty, trust and long term customer engagement rather than focusing on a one time sale transaction.

- Relationship Marketing is quite different from the traditional Transactional Marketing. While transactional marketing focuses only on selling the product, relationship marketing focuses on building a long term relationship with the customer.
- The shift from transactional marketing to relationship marketing is because of factors like lack of differentiation between products due to easy replication, high cost of acquiring new customers and presence of large number of competitors.
- E-Commerce is another recent development in the arena of sales management. The role of e-commerce is immense in selling. E-Commerce is the use of electronic mediums like internet, mobile phones, telephones, and fax machine to carry on business activities and transfer information and funds for the smooth flow of business functions.
- E-commerce helps businesses to have a global presence and sell anywhere in the world without having physical presence. It also helps to encourage customers to buy by providing the feedback from other users and to study the buying behavior of customers which helps companies to target potential customers.
- The concept of International Sales Management has come up due to the growing expansion of business into the global sphere for various reasons like increase in competition, changing customers' needs, stagnation of demand in the domestic market, and gaining economies of scale.
- International sales management aims to have a thorough understanding of the company's operation in the global context and devise strategies accordingly. The strategies need to be formulated regarding the mode of entry, marketing mix, selling approaches etc.
- International Sales Management deals with the formulation of strategies related to sales job description, recruitment and selection, and sales training.

- While doing business in the foreign market the international sales manager plays a very vital role in planning, organizing and coordinating the sales activities.Variation in the marketing environment makes selling in the international market a challenging task.
- The international sales manager has to face various challenges due to factors such as difference in the economies of various nations, variation in culture as every country has different religion, language,beliefsetc, difference in political and legal environment, managing an international sales force, and lastly decision making ability as risk is high in international markets.



3.9 FURTHER READING

1) Gupta, S.L (2010). *Sales and Distribution Management,* New Delhi: Excel Books

2) Havaldar, K.K; Cavale.V.M (2010). *Sales and Distribution Management-Text and Cases,* New Delhi: Tata McGraw Hill Education Private Limited.



3.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: American Marketing Association defines Sales Management as, “The planning, directing and controlling of personal selling including recruiting selecting, equipping, assigning, routing, supervising paying and motivating as these tasks apply only to the sales force”.

Ans to Q No 2: The various types of reports are- Daily Reports, Weekly Reports and Tour Programme. These reports help the sales manager in forecasting sales trend and in making necessary changes to cope

up with the prevailing scenario and to assist in prudent decisions making.

Ans to Q No 3: The term relationship marketing was first used in America in the early 1980's.

Ans to Q No 4: The 5 E's of relationship marketing are as follows:

a. Effective

b. Efficient

c. Enjoyable

d. Enthusiastic

e. Ethical

Ans to Q No 5: E-Commerce is the use of electronic mediums like internet, mobile phones, telephones, and fax machine to carry on business activities and transfer information and funds for the smooth flow of business functions.

Ans to Q No 6: The various types of E-Commerce are:

a. Business-to-Business (B2B):

b. Business-to-Consumer (B2C)

c. Consumer-to-Consumer (C2C)

d. Consumer-to-Business (C2B)

e. Business-to-Administration (B2A)

f. Consumer-to-Administration (C2A)

Ans to Q No 7: The various factors that lead to international expansion of businesses are increasing competition, changing customers' needs, stagnation of demand in the domestic market, and gaining economies of scale.

Ans to Q No 8: The formulation of recruitment and selection is important because every market has different selling approaches and the selection of sales force should be done according to the requirement of the foreign market.

Ans to Q No 9: It is important for international sales manager to have decision making ability as the risk in the international market is very high and taking correct decision at the right time is very crucial.

Ans to Q No 10: The differences in rules, laws, and regulations in the foreign market make it a challenging task for the sales manager to operate in the foreign market.



3.11 MODEL QUESTIONS

SHORT QUESTIONS (Answer each question in 150 words)

Q 1: What are the important aspects of sales management information system?

Q 2: What is the difference between Transactional Marketing and Relationship Marketing?

Q 3: Write in brief about the formulation of sales strategy at the international market?

LONG QUESTIONS (Answer each question in 300-500 words)

Q 4: Define Relationship Marketing. What is the need of relationship marketing?

Q 5: Write in brief about the role played by E-Commerce in selling.

Q 6: What are the challenges faced by International Sales Manager?

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UNIT 4: CHANNEL MANAGEMENT

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Marketing Channels

- 4.3.1 Types of Marketing Channels
- 4.3.2 Selection of Marketing Channels

4.4 Designing Channels

4.5 Selection and Recruitment of Channel Partners

4.6 Channel Motivation

4.7 Channel Relationship Management

4.8 Channel Evaluation

4.9 Information System for Channels

4.10 Let Us Sum Up

4.11 Further Reading

4.12 Answers to check your progress

4.13 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit you will able to:

- define marketing channels and their types and select the criteria of marketing channels
- discussthe meaning of designing channels and the stages involved in channel design
- explain the process of selection and recruitment of channel partners
- define channel motivation and the process of channel motivation
- explainchannel relationship management and its various dimensions
- discuss the process of channel evaluation and the factors affecting scope and frequency of channel performance evaluation
- define information system for channels and describe its elements along with the characteristics of a good information system for channels.

4.2 INTRODUCTION

Channel Management is the process of managing and planning marketing activities involving the channels of distribution to reach the customer base. Channels may be described as the means to sell products and services. Thus channel management involves strategic alignment of various enterprises with the customer needs in mind. The aim is to reach and satisfy customersand develop communication between customers and the product. In order to achieve this, the channels need to be segmented according to the needs, buying patterns and consumer behavior. The channel management is responsible for establishing direct communication with customers and if this is done properly it gives a clear idea regarding the selection of channels for definite customer base.

4.3 MARKETING CHANNELS

Marketing channels are the ways through which goods and services get transferred from the point of production to the point of consumption. The goods and services pass through the marketing channels in order to reach the end consumers. The marketing channels are the connecting point between producers and the consumers.The channel partners like the distributors, wholesalers and the retailers take the physical possession of the goods and stock themin order to make them reach the ultimate consumer. The marketing strategies regarding the channels influence the pricing, branding, offers etc. of the business.

4.3.1 Types of Marketing Channels

There are four main types of marketing channels:

1. **Manufacturer-Customer:** This is also known as zero level channel as there is no involvement of middlemen. In this type, the product flows directly from the manufacturer to the consumer. This is the simplest and the shortest marketing channel and as such it is very fast and economical. It is mostly

beneficial for small producers and producers of perishable commodities. But this marketing channel is also adopted by big companies for its cost cutting benefit. Bata is a company which has adopted Manufacturer-Customer marketing channel.

2. **Manufacturer-Retailer-Customer:** This is also known as One Level Marketing Channel. In this type, there is one stage of channel involvement between producer and the customer. The producer sells to the retailer like departmental stores and they sell it to the ultimate consumer. This marketing channel is mostly used for the distribution of consumer durables such as TV and refrigerator. The retailer purchases the goods from the manufacturer and performs marketing activities in order to sell the products to the consumer.
3. **Manufacturer-Wholesaler-Retailer-Customer**: This is also known as two level marketing channel. In this type, there are two middlemen namely the wholesaler and the retailer. This marketing channel is mostly used for products like groceries, cosmetics etc. Since the goods pass through two stages, it may likely increase the price for the end consumer.
4. **Manufacturer-Agent-Wholesaler-Retailer-Consumer:** This is three level marketing channel. The producer instead of looking for wholesaler sells the goods to an agent who takes the responsibility of searching for wholesaler.

4.3.2 Selection of Marketing Channels

The selection of an appropriate channel of distribution is a crucial decision for every business. It's important to compare the cost, sales volume, and profits expected from other alternative channels before deciding the distribution channel. The selection of the right channel depends on a number of factors which are as follows:

a. **Market Consideration:** The nature of the market is an important factor that influences the selection of the marketing channel. The features of a market that are to be considered while making the selection of marketing channels are as follows-

- Consumer or Industrial Market: If the product is of the industrial market the selection of a shorter channel is considered as the buyers of industrial product generally purchase in a huge quantity. Whereas in case of consumer goods retailers are included.
- Number and location of buyers: If the market of the product is small or buyers are limited smaller channels of marketing is considered easy and economical.
- Customer buying habits: The buying habits of customers like the desire for credit, willingness of the customer to spend time while making the purchase decision, the need for one stop shopping influences the selection of marketing channel.

b. **Product Consideration:** The type and nature of product also influences the selection of marketing channel. The features of a product that are considered important are:

- Perishability: Products which are perishable in nature are generally sold through short channels as long channels might lead the products to deteriorate in quality. In addition to that, products where there are frequent changes in fashion also require shorter marketing channels.
- Standardization: Products which are standardized in nature can be distributed through channels comprising middlemen but customized products demand direct contact between producer and consumer and hence shorter channels are preferred.
- Product Line: Businesses having wide range of products might opt for their own retail outlet, whereas if a business

deals with only one or two products it is more economical and convenient to sell through retailers.

c. **Middlemen Consideration:** There are a lot of factors in the cost and efficiency of middlemen which influence the decision regarding the selection of marketing channels. Some of the factors are-

- Availability: The availability of the desired middlemen, who are willing to handle the products, is important.
- Attitudes: The policies of the company and the attitude of the middlemen should match. Some retailers demand for guarantee against price fall or sole selling rights has to match with company's marketing policies.
- Cost: The cost of middlemen is another important factor because companies need to estimate the final cost that the customers will have to pay for the product.



CHECK YOUR PROGRESS

Q 1: What is meant by marketing channels?

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Q 2: Mention the various types of marketing channels.

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4.4 DESIGNING CHANNELS

The channel is basically a bridge between the manufacturer and the end customer. Designing channels involves decision for the creation of new marketing channel or modification of existing channels. Marketers while deciding on the most suitable channel consider a lot of factors such as product mix, marketing mix, width and depth of market, long term commitments to channel partners, cost of channel, company policies regarding services planned through channel, and control over channel by

the company.

While designing channels it's important to know the customer needs, channel objectives, cost, and the alternatives available before deciding the ideal channel system. The channel has to be profitable which means it should generate revenue for the company. In addition to that it should also be suitable to carry on the smooth delivery of goods or services. The channel design has to be concerned about all the links in the process of the flow of products from the manufacturer to the end user.

The organization while designing the channel system needs to understand the following questions:

- What are the activities needed to be performed by the channel (redistribution, stocking, collection and disbursements to the company)?
- Which activity will be performed by which channel member (C&F agents, distributors, wholesalers)?
- Describe the number of channel members needed for the number of C&F agent in the network.
- What are the services the channel members will need from the company (credit, infrastructure, lead time for placing order)?
- What are the services that the company will need from the channel members (number of outlets, frequency of coverage etc.)?
- What is the compensation to be received by the channel members and how are their performances to be judged?

Stages in the development of channel design:

The following arethe stages in the channel design decision:

Stage1- Identifying the need for designing channels- It is important for the company to identify the cause behind the decision to design a new channel. The need to design a new channel may arise due to various reasons like new product or a new target market, environmental changes, new intermediary policies etc.

Stage2- Formulating distribution objectives- While formulating the distribution objectives the first task is to be familiar with the general objectives

and strategies of other marketing mix areas and that of the firm as a whole. After that,the distribution objectives need to be set with the goal of achieving the overall marketing objective of the firm. After setting the distribution objectives it is important to check their compliance with the other marketing goals of the firm.

Stage 3- Specifying the distribution task- The tasks which are required to be performed by the channel members need to be specified in order to meet the distribution objective. The main aim in specifying the distribution task should be easy and smooth delivery of goods or services to the end consumer.

Stage 4- Developing possible alternative channel structure- After specifying the distribution taskthe channel manager should focus on developing alternative channel structure through which the objectives set can be met. The channel structure may be single or multiple depending on the need to reach the target market efficiently and effectively.

Stage 5- Evaluating the variables affecting channel structure- there are various factors that affect the channel structure like the marketing variables (market size, market density, market behavior), product variables (product size, product weight, product perishability), company variables (financial capacity, managerial expertise, company objectives), intermediary variables (availability, cost, services offered), environmental variables (economic, socio-cultural, technological, legal).

Stage 6- Choosing the best channel structure- It is the last stage where the best channel is selected depending on the performance required at the lowest possible cost. This is the most critical and crucial decision for the success of the channel design process.



CHECK YOUR PROGRESS

Q 3: What are the factors involved in deciding on a suitable channel?

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Q 4: What are the aspects the marketer needs to know while making channel decision?

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4.5 SELECTION AND RECRUITMENT OF CHANNEL PARTNERS

The selection of a channel is an important task for any company and it involves steps like identifying customer needs, checking on the availability of channel partners and the fulfillment of the criteria set by the company.

The selection of a channel partner generally consists of three steps:

a. Search for the prospective channel member: The search for prospective channel member is the first step in selecting the channel members. There are various sources which can help in the search of a suitable channel partner like the fields sales force of the company. The field sales force has knowledge about the potential channel members and can be a source for the company to find suitable and appropriate channel member. Various trade organizations can also provide an insight regarding the prospective channel members for the company. The company can also advertise in order to find prospective channel members.

b. Determining the suitability of the channel partner based on the fulfillment of selection criteria set by the company: After the prospective channel members have been classified, the company now needs to apply the selection criteria and analyze the suitability of the channel partner based on those criteria. The company may have selection criteria related to the financial strength of channel partner, product related knowledge and so on.

c. Securing the channel member: It is not only the manufacturer who makes the selection of the channel members but the intermediaries also who look at various factors and hence the manufacturer should secure the channel members by providing a good and attractive product

line, promotional assistance, managerial support, and congeal relationships.

Example of Channel Partner Selection (C&FA and Distributor) for a consumer product industry: -

a. Parameters and Criteria for selection of Carrying and Forwarding Agent-

The primary responsibility of a C&FA is transportation which includes task like receipt of goods, storage, receiving order from salesperson, processing the orders, dispatching goods, maintaining records, and collection of sales proceeds. Thus, while making selection of C&FA the company would examine on the following parameters and criteria:

Parameters of Selection	**Criteria for Selection**
Location of party	Close to the main market of the company.
Location of warehouse	Close to a major market with proper transport access and labour facility and telephonic communication.
Experience	Worked for similar company in the past and have good access to warehouse.
Financial Strength	Ability to handle all operating expenses till re-imbursements.
IT Capability	Adequate hardware and trained staff.
Flexibility	To handle peak loads and in working hours
Transportation	Reliability, Consistency in sourcing of vehicles, ability to handle additional volumes in short notice.
Attitude	Positive attitude and disciplined working style
Commitment	High level of commitment and willing to expand business.

a. Parameters and Criteria for selection of Distributor-

The main task of a distributor is to buy the products from the C&FA

and sell them to the wholesaler, retailer or other institutions. Thus, while making the selection of a distributor the company will look into the following parameters and criteria:

Parameters of selection	**Criteria for selection**
Size of the channel member	Financial Ownership, Present business profile.
Sales force	Number of sales persons with the distributor, qualification, Experience.
Experience	Products handled, volume handled, companies associated with in the past.
Reputation	Leadership position in the market, fairness in dealings.
Market Coverage	Territory covered, Relationship, Regularity.
Credit extended in the market	Percentage of outlets, percentage of current business, bad debts if any.
Infrastructure Availability	Hardware, warehouse, distribution vans.
Sales Performance	Awards, Achievements etc.
Marketing	Efforts on merchandizing, displays.
Inventory Management	Stock norms recommended by the company.



CHECK YOUR PROGRESS

Q 5: What are the various sources that can help in the search for a suitable channel partner?

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Q 6: What are the aspects through which a manufacturer can secure a channel partner?

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4.6 CHANNEL MOTIVATION

The ambitious level of volume and growth targeted by companies needs tremendous efforts from salesperson and channel partners for fulfillment. In order to achieve the desired results companies should keep the channel members highly motivated. It is the task of the company to make the channel partner feel integrated with the aims and objectives of the company and remind them that they are partners of the company in satisfying the end user. Motivating the channel partner is an important task as companies need to have a major share in the distributors mind if they want to lead in the market. It is a challenging task as it requires designing capacity building programs, promotional support, product training, marketing research etc to make the company's product more important in the distributors mind relative to other products they carry. Channel Motivation starts with knowing the needs of the channel partner and the influencing factor that drives them to perform at the peak of their capacity.

The power format suggested by John R French and Bertram Raven can be listed as the powers of motivation to be used on channel partners to make them more effective and motivated. The powers are explained below:

a. **Referent Power:** This power is associated with the position the company holds in the market. This power gives recognition and respect to the company and as such any intermediary associated with such company gets the benefit. Companies like Colgate, Infosys have referent power in their businesses.

b. **Expert Power:** It is related to the unique knowledge the company has developed that adds value to the channel partner. This kind of specialized knowledge can be shared by the company with the sales personnel of the distributor in order to help them to perform well. The company has to continuously keep on upgrading its knowledge base in order to keep adding value to the intermediary. Examples of companies which have developed such knowledge are LG, Maruti etc.

c. **Legitimate Power:** The company has legal rights to enforce the intermediary to do certain task. These legal rights are bestowed on

the company by the virtue of agreements or contracts signed by the intermediary with the company. For example, company may enter into a contract with the intermediary regarding the level of stocks to be maintained by the intermediary and as such the intermediary has an obligation to do so as per the contract.

d. Support Power: This power is exerted by the company to help its channel partners to increase their volume. The support could be in the form of promotion, subsidies like part of distribution cost or cost of sales people employed, or it can be in the form of spot cash for good sales performance.

e. Competition Power: It is the power executed by the company where they generate feeling of competitiveness among channel partners. Sales contest on targets assigned and other sales parameters are conducted and channel partners are ranked in accordance with their performance.

f. Reward Power: Reward power helps company to motivate its channel partner to perform additional task through monetary incentives. It is used in special situation as excessive use of this power may make intermediaries to underestimate such rewards. It is used in cases where the channel partner needs to perform specific task like 100% placement of a newly launched product in all outlets within a month and so on.

g. Coercive power: It is the power of 'threat' executed by companies on channel partners in case of any default on the part of the channel partner. It could be in the form of discontinuation of support or even the partnership. By exercising such powers companies do motivate intermediaries to comply by its norms. But excessive use of such powers may have a negative impact on channel members' behavior and as such it should be used only in certain cases where needed.

Companies must design motivational programs to ensure that the channel partners are directed towards customer satisfaction and are co-operative and friendly. Motivation can be done positively by providing incentives, subsidies, promotional support, merchandising support, credit

etc. At times channel partners can also be motivated through negative terms such as cutting down of incentives or other benefits. Motivating channel partner is vital for the smooth flow of all the function. Companies do enter into contracts or agreements in terms of market coverage, maintenance of stock level, technical services, complaint handling etc. for avoiding confusions and to foster a good andmutually beneficial relationship.Companies must aim for long term relationship with the channel partners and make them an integral part of the company through channel motivation programs.



CHECK YOUR PROGRESS

Q 7: What is meant by referent power and how can it help in channel motivation?

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Q 8: What are the two ways of motivating channel partners?

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4.7 CHANNEL RELATIONSHIP MANAGEMENT

Channel Relationship Management is the act of managing the social relationship with channel partners for mutually profitable business collaboration. By emphasizing on the relationship aspect both the partner and the company will benefit as it helps to carry on business smoothly without creating any confusion and duplication of work. It is important to streamline the processes and strategies with the partners who are responsible for delivering products to the customers' hands and managing the after sales service and support.

In order to manage the distribution channels it is important to have a cordial relationship between the channel partners. Companies must ensure harmonious relationship between channel partners so that the company can achieve its goal and create synergy by uniting the channel partners.

The basic social dimensions of channel relationships are Channel Leadership, Channel Conflict, and Channel Partnering.

- **Channel Leadership:** Channel Leadership is exercised by those channels which have the power to influence the activities and behaviors of other channel members. In some cases, the manufacturer acts as the leader having total control over the supply of products whereas in other cases the retailers play the leader role through control over retail price and inventory. Larger retailers like Wal-Mart are channel leaders through power over inventory and pricing.
- **Channel Conflict:** Channel conflict arises due to inappropriate relationship with channel members. It may arise due to clash of goals between the company and the channel partner such as the company may want its retailer to push as many products of their brand as possible in order to increase market share and profitability but a multi brand retailer may be willing to increase its range of multiple products irrespective of its brand. Channel conflict may also arise because of lack of communication or failure to meet the expectation. Conflicts may occur at any level of the system. It may occur between two retailers or between the company and the retailer.
- **Channel Partnering:** Channel partnering means co-operation among all members involved in the distribution system. Every member of the system is dependent on the other. The retailers are dependent on the company for the supply of goods whereas on the other hand the company is dependent on the retailers for selling their products. Channel partnering is the joint effort by all parties involved in the distribution system to develop a strong supply chain network and strive for customer satisfaction.



CHECK YOUR PROGRESS

Q 9: What is channel relationship management?

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Q 10: What is meant by channel partnering?

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4.8 CHANNEL EVALUATION

The success of the company depends upon the effectiveness of the distribution channel. Thus it is mandatory for the company to keep on evaluating the performance of the channel partners. The criteria of evaluation are based on factors like achievement of targets, average level of inventory,numbers of complaint attended and so on. Channel evaluation basically aims at improving the performance of the channel partners. The channel evaluation process basically looks at the following aspect of the channel system:

a. The accomplishment of customer service by the channel system as targeted by the company.

b. The cost effectiveness of the network for their defined jobs.

c. The level of performance by the channel members based on the quality and timings of delivery.

d. The process of performance measurement followed by the system and its transparency to the channel partner.

e. The feeling of channel members regarding fair and equitable treatment by the companyfor remuneration and return on investments for the services provided by them.

f. The capacity of the channel system to motivate low performers to use their potentiality.

g. The ability of the channel system to take actions on complains and taking correction measures for the future.

Factors affecting scope and frequency of channel performance evaluations:

There are various factors that impact the scope and frequency of the channel evaluation. Some of them are listed below:

1. Degree of manufacturer's control over channel members: The

degree of control the manufacturer has over the channel members is generally governed by the contracts signed between the parties. The higher the control of manufacturer over the channel members the easier will be the evaluation process.

2. **Importance of channel members:** The manufacturer who solely depends on intermediaries to sell its products, evaluate the channel members more comprehensively as the success of the firm is dependent on the performance of the channel member's performance. But manufacturers who have their own retail outlets for majority of their sales portion and use intermediary to serve only a small portion of the market sales may not opt for a detail evaluation of the channel's performance.
3. **Nature of the product:** The evaluation process is broader for products which are more complex. For products having high unit value, the loss or gain of a single order has a huge impact on the manufacturer.
4. **Number of channel members:** If the company has intensive distribution system the manufacturer may not opt for a detailed evaluation process as the number of channel members is high. But,if the company has selective distribution system, the company will have access to all the details of the channel member because of the close proximity with their partners and as such the company may conduct a comprehensive evaluation of their performance.

Channel Performance Evaluation Criteria:

The main purpose of channel member is to make the products available and visible in the market. The performance of channel members thus depends on these two primary responsibilities of the channel member. The company can perform channel evaluation on those members who are on contract with the company. It is not possible for the company to conduct performance evaluation on independent wholesalers and retailers.

Some of the criteria for evaluation and their respective performance measures are stated below:

Criteria for Evaluation	Popular Performance Measure
Sales Target Achievement	Primary Sales Secondary Sales (FMCG) Market Share Achieved
Inventory Management	Inventory Turnover Average level of Inventory Storage Quality
Selling Resources	Number of sales person Target achieved by sales persons Productive calls made per day
Market Coverage	Support to new product launch Support to promotions Extension of credit
Back Office Support	Trained man-powerUse of computers Maintenance of reports and records

Channel evaluation is important as it enables the company to know about the performance of its channel members which leads the company to take corrective actions and motivate its channel members for better performance in order to create a performing organization.



CHECK YOUR PROGRESS

Q 11: On what factors are the criteria of channel evaluation based?

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Q 12: What is the importance of channel evaluation?

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4.9 INFORMATION SYSTEM FOR CHANNELS

The raw data available will be of no use if it is not systematic. The information system works to convert the raw data into meaningful information.

The system helps the data to be used for different purposes and stores in easily retrieval formats. The information is used for planning purpose like making sales forecast and also for control purpose like control of expenses against budget. The company must decide on the information to be collected and analyzed as it involves cost. The sources of collecting information may be internal or external. An internal source includes reports, records of channel members, market research and information collected by sales persons. External source includes published data, magazines, newspapers, trade journals etc.

The steps in the development of an Information System for Channels include:

- Deciding the information required
- Organizing the information and interpreting them to take actions
- Deciding the user of the information and the purpose of its use

Characteristics of a good information system for channels:

The basic characteristics of a good information system are:

- It should be an integral system that helps to handle all the data.
- It should help in the decision making of the organization.
- It should be user friendly.
- It should be cost effective.
- It should be fast and reliable.
- It should not depend on any other sources for verification.

Elements of Information System for Channels:

The elements of information that the sales managers are interested in are listed below along with their purpose, source of data, action possible and impact on service.

1. **Market Information:** This is one of the most important parts of information irrespective of the type of industry for the sales manager. It relates to the market potential, players in the market, competitors' activities, activities of non-competitor but complementary products etc. It has to be accurate, regular and updated on a regular basis as market is very dynamic. The channel members should collect and review this information on a regular basis whereas the sales manager needs to do this activity on a weekly basis. The purpose of collecting market

information is to plan the day to day activities, and such information is generally collected by the channel partners or the salesperson. It helps to make the necessary changes to the product or pricing as per the market scenario so that timely actions can be taken to maintain the market share.

2. **Competition tracking:** The information regarding competition in the market are the pricing of products, promotions being carried out, new products launch etc. Such information helps to plan out the operational activities especially for companies like pharma and FMCG companies. The main purpose of collecting such information is to keep a track on the market competition and is generally collected through sales people and channel partners.
3. **Distributor profile and data base:** It includes all the information of the distributors such as the name, address, location, name of the partner, name of the contact person, number of years in business, financial strength etc. It is generally updated once in a year. The main purpose of collecting such information is to plan major events like product launch. The source of information is sales person.
4. **Primary Sales:** Primary sales mean the sales done by company to the distributors.It is easy to collect as all the sales are done from company to distributors. C&FA are collected and recorded every day. The purpose of collecting such information is to plan future sales. It helps to avoid situation like stock out as sales people can pressurize distributors to keep adequate stock so that the market does not suffer.
5. **Secondary Sales:** Secondary sales mean the sales done from the distributors to their customers like wholesalers, retailers, institution etc. The purpose of collecting such information is to plan promotion activities and to improve sales from distributor's point. The distributors whose movement is slow can be identified and necessary actions can be taken. This information can be collected from salespersons and distributors.
6. **Retailer Cards:** These cards are maintained by FMCG and pharmaceutical companies where the number of retail outlets to be

covered is large. It consists of information like the name of the outlet, billing amount, size of the packs, average purchase etc. It helps to keep a record of the stock holding patterns of retailers. The salesman of the distributors collects the data from the outlets. It helps to plan the potential outlets and focus on promotional activities.

7. **Pricing trends:** The pricing trends of the market need to be traced in order to take corrective actions regarding pricing issues. The data needs to be collected on a daily basis for products having volatile pricing. It helps to take corrective measure regarding pricing and keep an update whether the company is having any price disadvantage.
8. **Promotions History:** The companies keep a record of the promotional history product wise, the target set and the actual sales achieved, the cost of promotions and the reaction in the market. It helps in planning future promotions and to assure the effectiveness of promotional events in other markets.
9. **Distributions Costs:** The distribution costs need to be recorded in order to optimize the cost of distribution and maximize the productivity of partners by comparing with other channel partners.
10. **Distributors Return on Investments:** The Return On Investments (ROI) from the distributors needs to be measured and recorded in order to ensure adequate returns and take necessary corrective measures to improve the ROI.



CHECH YOUR PROGRESS

Q 13: What are the steps in the development of an information system for channels?

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Q 14: What are the characteristics of a good information system?

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4.10 LET US SUM UP

The following aspects have been discussed in this unit—

- Channel Management is the process of managing and planning marketing activities involving the channels of distribution to reach the customer base. The aim is to reach and satisfy customers and develop communication between customers and the product. In order to achieve this, the channels needs to be segmented according to the needs, buying patterns and consumer behavior.
- An important component of channel management is marketing channel. Marketing channels are the ways through which goods and services get transferred from the point of production to the point of consumption. The goods and services pass through the marketing channels in order to reach the end consumers.The various types of marketing channels are Manufacturer-Customer, Manufacturer-Retailer-Customer, Manufacturer-Wholesaler-Retailer-Customer, and Manufacturer-Agent-Wholesaler-Retailer-Consumer.
- The selection of the right channel depends on a number of factors. Firstly, the market consideration which includeswhether the market is a consumer or industry product,location of buyers, consumer buying habits. Secondly, product consideration which includes the perishability of the product, standardization of the product and the product line. Thirdly, middlemen consideration which includes the availability, cost of middlemen, and their attitude.
- Another important aspect of channel management is designing channels. Designing channels involves decision for the creation of new marketing channel or modification of existing channels. Marketers, while deciding on the most suitable channel, consider a lot of factors such as product mix, marketing mix, width and depth of market, long term commitments to channel partners, cost of channel, company policies regarding services planned through channel, and control over channel by the company.

- In the process of designing channels marketers must know the customer needs, channel objectives, cost, and the alternatives available before deciding the ideal channel system.
- Selection and Recruitment of channel is an important task for the marketer. The selection of a channel is an important task for any company and it involves steps like identifying customer needs, checking on the availability of channel partners and the fulfillment of the criteria set by the company.
- The selection of channel partner consists of 3 steps. They are search for the prospective channel member, determining the suitability of the channel partner based on the fulfillment of selection criteria set by the company, and securing the channel member.
- Motivation of channel members is highly important in order to achieve the desired results of the company, and has a major share in the market. Channel Motivation starts with knowing the needs of the channel partner and the influencing factor that drives them to perform at the peak of their capacity.Motivation can be done positively by providing incentives, subsidies, promotional support, merchandising support, credit etc. At times channel partners can also be motivated through negative terms such as cutting down of incentives or other benefits.
- There are various powers exerted by the company which can be used upon the channel partners to motivate them. These are referent power, expert power, legitimate power, support power, competition power, reward power, and coercive power. Companies must aim for long term relationship with the channel partners and make them an integral part of the company through channel motivation programs.
- In order to manage the distribution channels, it is important to have a cordial relationship between the channel partners. Companies must ensure harmonious relationship between channel partners so that the company can achieve its goal and create synergy by uniting the channel partners. Thus, channel relationship management is important which is an act of managing the social relationship with channel partners for a mutually profitable business collaboration.

- In order to know the effectiveness of distribution channel, it is mandatory for companies to keep on evaluating the performance of the channel partners. The criteria of evaluation are based on factors like achievement of targets, average level of inventory, numbers of complaint attended and so on.
- The various factors that impact the scope and frequency of the channel evaluation are degree of manufacturers' control over the channel, importance of channel members, nature of the product and number of channel members.
- The information system is needed to convert the raw data into meaningful information.The information is used for planning purpose like making sales forecast and also for control purpose like control of expenses against budget.
- The steps in the development of an Information System for Channels include deciding the information required, organizing the information and interpreting them to take actions, deciding the user of the information and the purpose of its use.



4.11 FURTHER READING

1) Gupta, S.L (2010). *Sales and Distribution Management*, New Delhi: Excel Books.

2) Havaldar, K.K; Cavale.V.M (2010). *Sales and Distribution Management-Text and Cases*, New Delhi: Tata McGraw Hill Education Private Limited.



4.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Marketing channels are the ways through which goods and services get transferred from the point of production to the point of

consumption. The goods and services pass through the marketing channels in order to reach the end consumers. It is basically the connecting point between producers and the consumers.

Ans to Q No 2: The various types of marketing channels are:

- Manufacturer-Customer
- Manufacturer-Retailer-Customer:
- Manufacturer-Wholesaler-Retailer-Customer
- Manufacturer-Agent-Wholesaler-Retailer-Consumer

Ans to Q No 3: The factors that are important while deciding on a suitable channel partner are product mix, marketing mix, width and depth of market, long term commitments to channel partners, cost of channel, company policies regarding services planned through channel, and control over channel by the company.

Ans to Q No 4: The aspects to be known by the marketer while making channel decisions are the customer needs, channel objectives, cost, and the alternatives available.

Ans to Q No 5: The various sources that can help in the search for a suitable channel partner are the field sales force of the company, trade organizations and advertisements.

Ans to Q No 6: The aspects through which a manufacturer can secure a channel partner are by providing a good and attractive product line, promotional assistance, managerial support, and maintaining a congeal relationship.

Ans to Q No 7: Referent Power is associated with the position the company holds in the market. This power gives recognition and respect to the company and as such any intermediary associated with such company gets the benefit. This motivates the channel partner to be associated with such companies.

Ans to Q No 8: The two ways of motivating channel partners are motivation through positive terms like providing incentives, subsidies, promotional support, merchandising support, credit etc and motivation through negative terms like cutting down of incentives or other benefits.

Ans to Q No 9: Channel Relationship Management is the act of managing

the social relationship with channel partners for a mutually profitable business collaboration.

Ans to Q No 10: Channel partnering means co-operation among all members involved in the distribution system. It is the joint effort by all parties involved in the distribution system to develop a strong supply chain network and strive for customer satisfaction.

Ans to Q No 11: The criteria of channel evaluation are based on factors like achievement of targets, average level of inventory, numbers of complaint attended and so on.

Ans to Q No 12: The success of the company depends upon the effectiveness of the distribution channel. It aims at improving the performance of the channel partners. Thus, it is important for the company to keep on evaluating the performance of the channel partners.

Ans to Q No 13: The steps in the development of an Information System for Channels include:

- Deciding the information required
- Organizing the information and interpreting them to take actions
- Deciding the user of the information and the purpose of its use

Ans to Q No 14: The basic characteristics of a good information system are:

- It should be an integral system that helps to handle all the data.
- It should help in the decision making of the organization.
- It should be user friendly.
- It should be cost effective.
- It should be fast and reliable.
- It should not depend on any other sources for verification.



4.13 MODEL QUESTIONS

Short questions (Answer each question in about 150 words)

Q 1: What are the different types of marketing channels?

Q 2: What are the steps in the selection of channel partner?

Q 3: Explain the basic social dimension of channel relationship?

Q 4: What are the factors affecting scope and frequency of channel performance evaluations?

Q 5: What are the characteristics of a good information system for channels?

Long Questions (Answer each questions in about 300 to 500 words)

Q 1: Explain briefly the factors on which the selection of marketing channels depends.

Q 2: What are the stages in the development of a channel design? Briefly explain the stages.

Q 3: Explain briefly the powers of motivationthat can be used on channel members for channel motivation.

Q 4: Briefly explain the elements of information system for channels.

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UNIT 5: WHOLESALING

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept and Importance of Wholesaling

5.4 Types of Wholesalers

5.5 Functions of Wholesalers

5.6 Latest Trends in Wholesaling

5.7 Let Us Sum Up

5.8 Further Reading

5.9 Answers To Check Your Progress

5.10 Model Questions

5.1 LEARNING OBJCTIVES

After going through this unit you will be able to

- define the concept of wholesaling
- explain the importance of wholesaling
- describe various types of wholesalers
- explain functions of wholesalers
- outline the latest trends in wholesaling

5.2 INTRODUCTION

In this unit we are going to discuss about wholesaling. Wholesaling is the sale and distribution of goods to specific customer types such as those most commonly referred to as retailers. Retailers the persons who will resell the good to an end user. We will discuss about retailers in next unit. Generally in wholesaling activity, the buying or selling of goods takes place in large amounts, especially in order to sell them in shops or supermarkets compared to the retailing. In this unit we will briefly discuss it's various types and functions of wholesaling and latest trends in wholesaling.

5.3 CONCEPT AND IMPORTANCE OF WHOLESALING

Wholesaling refers to all those activities which involve selling the goods or services to those who buy for reselling or for other business purposes. Wholesaling excludes the retailers as they are concerned with selling to ultimate consumers in small quantities and manufacturers as they are involved in production most importantly. The wholesalers deal with business customers rather than final consumers so they pay least attention to promotion, location and the atmosphere. The transactions involved in wholesale are larger than in retail and also the trade area is large. Also the legal regulations and taxes are different for wholesale and retail. So, wholesalers (also known as distributors) and retailers differ from each other in a number of ways.

Wholesaling is an important aspect of distribution. It has a significant impact on the economy and also it plays a tremendous role in the distribution channel and creates a strong relation with suppliers and customers.

Operating costs for wholesalers include inventory charges, sales force salaries, rent charges, advertising costs etc. So, from the cost perspective the impact of wholesalers on prices is high. The profit of wholesalers depends on inventory turnover, money value of products, the functions performed etc.

Institutional buyers make considerable purchases from the wholesalers for which revenue increases.

5.4 TYPES OF WHOLESALERS

The major types of wholesalers are as follows:-

1. ***Merchant Wholesalers***- Their businesses are independently owned and the title is taken to the merchandise they handle. Full-service and limited service jobbers, distributors and mill supply houses come under this category.
2. ***Full- service Wholesalers –*** They carry stock, maintain a sales force, offer credit, make deliveries, and provide management assistance. Wholesale merchants sell to retailers and industrial distributors sell

to manufacturers and provide credit and delivery services.

3. ***Limited -service Wholesalers- Cash and carry*** wholesalers sell limited line of fast moving goods to small retailers, ***truck wholesalers*** sell and deliver limited line of semi perishable goods to supermarkets, grocery stores ,hospitals, restaurants, hotels, ***drop shippers*** provide services to bulk industries such as heavy equipment, coal etc., ***mail-order wholesalers*** helps to send catalogs to retail, industrial and institutional customers by mail, rail, plane or truck.
4. ***Specialized Wholesalers-*** Agricultural assemblers, petroleum bulk plants and terminals and auction companies fall under specialized wholesalers.

5.5 FUNCTIONS OF WHOLESALERS

In the process of marketing of goods, the wholesalers perform a number of functions which are mentioned below:-

a) ***Assembling and Buying***- The wholesalers assembles or collects small lot of scattered agricultural production for economic bulk buying. At the same time they select the manufacturers to place orders on them and making special purchase in case of seasonal products.

b) ***Warehousing***- Wholesalers hold inventories as there is always a gap between time periods of production and consumption. In order to reduce risks and inventory costs, this warehousing by wholesalers helps the retailers and the producers a lot.

c) ***Transporting***- Wholesalers can provide the quicker delivery to buyers as they are closer to them. This transportation is done either through their own fleet or through hired common carriers. In the activities of assembling, warehousing and resale the wholesalers undertake the transportation tasks.

d) ***Financing***- By granting credit to the customers and financing the suppliers by ordering early and paying bills on time the wholesalers undertake financing tasks.

e) ***Risk bearing***- Risks are unavoidable in business which needs to be borne and shifted. The risks of loss of change in prices, of damage,

quality deterioration, pilferage, theft, fire, and like are borne by the wholesalers. They also bear the risks of under payment or non - payment by the retailers.

f) ***Grading, Packaging and Packing***- Grading is an important tasks of wholesalers wherein the stocks are sorted in terms of different sizes, qualities, shapes, and so on. To meet the small lot requirements of the retailers bulk breaking is done and also repacks for the consumers as per retailer's order.

g) ***Dispersing and Selling***- Wholesaler's sales forces help the manufacturers to reach the small business customers at a relatively low cost. The assembled goods and the stocked ones are meant for dispersing and selling. The retailers buy from the wholesalers.

h) ***Providing Market Information***- Information regarding competitor's activities, new products, price developments and so on are supplied by wholesalers to suppliers and customers.

5.6 LATEST TRENDS IN WHOLESALING

Manufacturers often have some issues or problems with wholesalers for which they bypass their services or replace with some better and efficient ones. Major complaints against the wholesalers are: manufacturer's product lines are not aggressively promoted by the wholesalers; customer's orders are not filled fast enough as the wholesalers do not carry enough stock; up-to-date market, customer and competitive information not provided by wholesalers; high-caliber managers are not hired and they charge too much for their services.

Even direct-buying programs were designed by the large manufacturers and retailers for which the wholesalers had a significant decline. In order to meet the changing needs of the customers and suppliers the successful wholesalers had to adapt their services and add value to it. The constant changes and the latest trends compelled the wholesalers to reduce the operating costs and invest in advanced materials, handling technology, information systems and the internet.

The latest trend of increase in price and absorbing the competent suppliers based on cost and quality, the position of wholesaling industry is at risk. The manufacturers still remain strong by controlling their intermediaries and in owning them too. Some of the major trends in wholesaling are discussed as follows:

1. The distribution between large retailers and large wholesalers continues to blur. While many retailers now operate formats such as wholesale clubs and super-centers that perform many wholesale functions, many large wholesalers are setting up their own retailing operations. For example, with a majority of its business derived from supplying grocery products to independent grocery retailers.

2. Wholesalers will continue to increase the services they provide to retailers—retail pricing, cooperative advertising, marketing and management information reports, accounting services, online transactions, and others.

3. Both the recently sluggish economy and the demand for increased services have put the squeeze on wholesaler profits. However, the increased use of computerized, automated, and Web-based systems will help wholesalers contain the costs of ordering, shipping, and inventory holding, thus boosting their productivity.



CHECK YOUR PROGRESS

Q1.Define wholesaling.

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Q2. Mention the types of wholesalers

……..……..

. ……..……..



5.7 LET US SUM UP

In this unit we have discussed about wholesaling.

Wholesaling refers to all those activities which involve selling the goods or services to those who buy for reselling or for other business purposes.

The wholesalers deal with business customers rather than final consumers so they pay least attention to promotion, location and the atmosphere. The transactions involved in wholesale are larger than in retail and also the trade area is large.

Operating costs for wholesalers include inventory charges, sales force salaries, rent charges, advertising costs etc. So, from the cost perspective the impact of wholesalers on prices is high. The profit of wholesalers depends on inventory turnover, money value of products, the functions performed etc.

The major types of wholesalers are as follows:-

Merchant Wholesalers

Full- service Wholesalers

Limited -service Wholesalers

Specialized Wholesalers

the wholesalers perform a number of functions which are mentioned below

Assembling and Buying

Warehousing

Transporting

Financing

Risk bearing

Grading, Packaging and Packing

The latest trend of increase in price and absorbing the competent suppliers based on cost and quality, the position of wholesaling industry is at risk.



5.7 FURTHER READING

1) Sontakki C.N. (1992). *Marketing Management*. New Delhi. Kalyani Publishers.

2) Kotler Philip & Keller K.L. (2007). *Marketing Management*. New Delhi. Prentice Hall of India Private Limited.



5.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Wholesaling is the sale and distribution of goods to specific customer types such as those most commonly referred to as retailers.

Ans to Q No 2: Merchant Wholesalers, Full- service Wholesalers, Limited -service Wholesalers and Specialized Wholesalers.



5.9 MODEL QUESTIONS

Q 1: Discuss briefly different types of wholesaling.

Q 2: Explain the functions of wholesalers.

Q 3: Explain the importance of wholesaling and the latest trends of wholesaling.

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UNIT 6: BASICS IN RETAILING

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Defining Retailing

6.4 Functions of Retailing

6.5 Classification of Retail Firms

6.6 Retail Industry in India- Different Forms

6.7 Retailing Environment

6.6 Let Us Sum Up

6.7 Further Reading

6.8 Answers To Check Your Progress

6.9 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- define retailing
- explain the characteristics and functions of retailing
- explain the different aspects of retail industry in India
- outline the different environmental issues related to retailing.

6.2 INTRODUCTION

In the earlier unit we have obtained a fairly good insight into wholesaling. This unit introduces you to the different retailing strategy of marketing. Retailing means the sale of goods or commodities in small quantities directly by consumers. Retailers are the person who convinces the customers to purchase the product. Retailing consists of the sale of goods or merchandise from a very fixed location, such as a department store, or by mail, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery of goods and services. Again retail purchasers may be individuals or

businesses.

Retailing industry in India is growing very rapidly. The retailing environment is influenced by both micro and macro factors. In this unit we shall discuss all these aspects.

6.3 DEFINING RETAILING

Retailing involves a direct interface with the customer and the coordination of business from end to end –right from the concept or design stage of a product or offering to its delivery and post –delivery service to the customer.

Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use. It is the last stage in the distribution process. Thus, retailing involves more than selling tangible products. The purchase of a service such as a haircut or hotel service is also a retail transaction. Purchases for business or industrial use are not retail transactions. In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power.

Today, retailing is at a growing stage with a lot of challenges ahead.

6.4 FUNCTIONS OF RETAILING



Assortment: A collection containing a variety of sorts of things

A retailer is supposed to provide utilities to the customer. In order to create value for the customer, the retailer has to carry out a number of functions. Some of these are listed below:

Functions of Retailing:

1. It should be at convenient location.
2. A retailer should provide an assortment of different goods.
3. Breaking of bulk items into small quantities.

4. Holding of stock for instant availability at relatively stable prices.
5. A retailer provides information to consumer as well as supplier.
6. A retailer provides product guaranties, after sales service and deals with customer complaints.
7. A retailer provides credit and hire purchase facilities.

6.5 CLASSIFICATION OF RETAIL FIRMS

Retail firms can be classified into a number of categories based on the following:

1. **Legal form:** There are three basic legal forms of ownership are exists in retailing. They are sole proprietorship, partnership and limited liability Company (private or public).
2. **Operational structure:** There are normally three operational structures in retailing. They are independent trader, multiple chain stores and consumer co- operatives. Franchise mode is also evolving.
3. **Range of merchandise**: Some retail businesses offer a wide range of goods, for example- Vishal Mega Mart. On the other hand, some retail outlets concentrate on narrow ranges like- health food, leather goods or greetings cards etc.
4. **Degree of service:** Although many retail outlets have been converted or built to self service or self selection standards, there are others that offer their consumers service such as delivery, credit, gift wrapping, repairs etc. For example-Bata Shops
5. **Pricing Policy:** Some retailers choose to set low price rather than the service element of their retailing mix.
6. **Location:** With the increasing cost of real estate, many retailers have selected outskirt locations also. The rural and semi urban market are also growing.
7. **Method of customer contact:** Most retail transactions are conducted by face to face contact in retail stores. But non store retailing can also be conducted through mail order catalogues, telephone selling, vending machines, door to door selling, mobile shops, and through internet.

There are several ways in which consumers can receive goods from a retailer:

- **Counter service:** Here goods must be obtained from the seller. This type of retail is common for small expensive items (e.g. jewelry) and controlled items like medicine and liquor.
- **Delivery (commerce):** Here goods are sent directly to consumer's homes or workplaces. Ordering by telephone is now common, either from a catalog, newspaper, television advertisement or a local restaurant menu, for immediate service (especially for pizza delivery). Direct marketing, including telemarketing and television shopping channels, are also used to generate telephone orders. Online shopping started gaining significant market share in developed countries in the 2000s. For example, Avon or Amway products, Asian sky shop products etc. can be easily got at home.
- Door-to-door sales, where the salesperson sometimes travels with the goods for sale.
- Self-service, where goods may be handled and examined prior to purchase became more common since the 1920s.Diffrent departmental stores are good example of self service retail outlet.



CHECK YOUR PROGRESS

Q.No.1: State True or False for the following statements:

(i) Retailer sells the goods to the wholesalers. (True /False)

(ii) Retailer does an assortment of different goods for consumers. (True /False)

(iii) Most retail transactions are conducted by face to face contact in retail stores. (True /False)

(iv) Retailer does not break the bulk items into small quantities. (True /False)

6.6 RETAIL INDUSTRY IN INDIA- DIFFERENT FORMS

A. Growth of Indian Retail: Retailing is one of the pillars of the economy in India and accounts for 35% of GDP According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, India retail industry is the most promising emerging market for investment.

The retail industry is divided into organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

B. Major Retailers in India

a. Pantaloon: Pantaloon is one of the biggest retailers in India with more than 450 stores across the country. Headquartered in Mumbai, it has more than 5 million sq. ft retail space located across the country. In 2001, Pantaloon launched country's first supermarket 'Big Bazaar'

b. Tata Group: Tata group is another major player in Indian retail industry with its subsidiary Trent, which operates Westside and Star India Bazaar. Established in 1998, it also acquired the largest book and music retailer in India 'Landmark' in 2005. Trent owns over 4 lakh sq. ft retail space across the country.

c. RPG Group: RPG Group is one of the earlier entrants in the Indian retail market, when it came into food & grocery retailing in 1996 with its retail Foodworld stores. Later it also opened the pharmacy and beauty care outlets

d. Reliance:Reliance is one of the biggest players in Indian retail industry. More than 300 Reliance Fresh stores and Reliance Mart are quite popular in the Indian retail market.

C. **Retail formats in India**: Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories.

1. **Mom-and-pop stores:** They are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.
2. **Departmental stores:** They are general retail merchandisers offering quality products and services.
3. **Convenience stores:** They are located in residential areas with slightly higher prices for the goods due to the convenience offered.
4. **Shopping malls:** The biggest form of retail in India, malls offer customers a mix of all types of products and services including entertainment and food under a single roof.
5. **E-trailers:** They are retailers providing online buying and selling of products and services.
6. **Discount stores:** These are factory outlets that give discount on the MRP.
7. **Vending:** It is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.
8. **Category killers:** They are small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets.
9. **Specialty stores:** They are retail chains dealing in specific categories and provide deep assortment. For example, Mumbai's Crossword Book Store and RPG's Music World etc.



MRP: Maximum Retail Price

D. Major Indian Retailers: Indian apparel retailers are increasing their brand presence overseas, particularly in developed markets. While most have identified a gap in countries in West Asia and Africa, some majors are also looking at the US and Europe. Arvind Brands, Madura Garments, Spykar Lifestyle and Royal Classic Polo are busy chalking out foreign expansion plans through the distribution route

and standalone stores as well. Another Denim wear brand, Spykar, which is now moving towards becoming a casualwear lifestyle brand, has launched its store in Melbourne recently.

The low-intensity entry of the diversified Mahindra Group into retail is unique because it plans to focus on lifestyle products. The Mahindra Group is the fourth large Indian business group to enter the business of retail after Reliance Industries Ltd, the Aditya Birla Group, and Bharti Enterprises Ltd. The other three groups are focusing either on perishables and groceries, or a range of products, or both.

E. Challenges facing Indian retail industry: Indian retail industry has been facing a numbers of challenges as shown below:

- The tax structure in India favours small retail business
- Lack of adequate infrastructure facilities
- High cost of real estate, regulations restricting real estate purchases, and cumbersome local laws.
- Dissimilarity in consumer groups
- Restrictions in Foreign Direct Investment, Automatic approval is not allowed for foreign investment in retail.
- Shortage of retail study options
- Shortage of trained manpower
- Low retail management skill
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

F. The future: The Indian retail industry is the fifth largest in the world. Comprising the organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially the retail industry in India was mostly unorganized, however, with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With the growing market demand, the industry is expected to grow at a pace of 25-30% annually. The Indian retail industry is expected to grow from Rs. 35,000 crore in 2004-05 to

Rs. 109,000 crore by the year 2010.

6.7 RETAILING ENVIRONMENT

The retailer must adapt themselves with the change in the environment. The retailing environment can be divided into two levels- the micro environment and the macro environment.

The micro environment consists of those elements which are under the control of the retail organisation such as customers, competitors and other channel members.

The macro environment consists of those elements which are not controllable by the retail organisation such as demographic, economic, cultural and social, political, legal, technological and natural factors.

A. THE RETAILING MACRO ENVIRONMENT:

1. **Demographic factors:** The retailer must segment the market based on different demographic variables (age, sex, education, income etc.) and then based on those segment, he should store the product. Formulate the retaining strategy, suppose for example, some retailers keeps all kinds of baby products, some retailers keeps only ladies or gents garments etc
2. **Economic factors:** As the standard of living of people is improving the demand for consumer durables is also increasing. Other economic factors that the retailer must monitor are the rate of inflation and the cost of credit. For example at the time of depression, demand for luxury goods are reduced.
3. **Cultural and social factors:** Individuals are becoming more self-concerned and they prefer healthy living. Food habits and lifestyle are also changing. These changes in society will be reflected in the needs and wants of the customer and the retailer must be aware of these changes in order to fulfill the market demand. Because of this changes demand for ready to eat food and demand for grinded masalas were increasing.
4. **Political factors:** Government policies also influence in retailing. The problem of inflation, foreign competition and unemployment will be

tackled differently by different political parties.

5. **Legal factors:** Closely associated with political philosophy is the role of the law and regulating authorities set up to administer and enforce the law. There are many laws relating to the health and safety of the workers and other laws relating to retailing are labeling requirements, pricing, credit policy etc. Sales of Goods Act etc are important regulations.
6. **Technological factors:** Because of the constant change in technology the retail industry has dramatically changed. Emergence of e-commerce is one of the significant technological up gradation of retailing. Now –a- days many retailers are doing on line trading for different goods like electrical items, mobile phone, jewelry, garments etc.
7. **Natural factors:** In modern marketing system, consumers are becoming more concerned about an eco- friendly environment. Retailers are expected to do the business in such a way that there will be little pollution and wastages.

B. THE RETAILING MICRO ENVIRONMENT:

1. **Competitors:** In any profitable market there will be competition to satisfy the needs and wants of the customer. Because of the competition retailers need to monitor the market and they have to put reasonable price. Otherwise competitors may sweep the market.
2. **Channel members:** Retailer is the last person in the channel of distribution. There are many other channel members like distributor, wholesaler, agents etc who also influence the retailing business.



CHECK YOUR PROGRESS

Q.No. 2: Explain a few challenges faced by Indian Retail Industry.

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6.8 LET US SUM UP

In this unit we have discussed about retailing. Retailing is a function through which exchange of goods and services takes place with the customer. Retailers are responsible for providing information to the customer as well as to the manufacturer as they have direct contact with the customer. The retail outlet should be at convenient place so that customer can easily get the product or services. The Indian retail industry is growing very rapidly which also creates employment opportunities for many people. Again the retailing environment is also influenced by many factors like social, economic, technological, legal etc. The retailer should monitor the environmental factors very carefully to do his business.



6.9 FURTHER READING

1) Retailing- An introduction, Roger Cox, Paul Brittain, Pearson Education.
2) Retail Management- A strategic approach, Barry Berman, Joel R. Evans, Pearson Education.
3) Retail Management, Gaurav Ghosal, Maxford Books.



6.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (i) false, (ii) true, (iii) true, (iv) false

Ans to Q No 2: Challenges faced by Indian Retail Industry

a. Lack of adequate infrastructure facilities
b. High cost of real estate
c. Dissimilarity in consumer groups
d. Restrictions in Foreign Direct Investment
e. Shortage of retail study options.



6.11 MODEL QUESTIONS

Q 1: Define retailing. Explain the characteristics and functions of retailing.

Q 2: Discuss the bases on which retailers can be classified.

Q 3: Explain the retailing environment.

Q 4: Write short notes on retail industry in India.

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UNIT 7: EMERGING CONCEPTS IN DISTRIBUTION MANAGEMENT

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 History and Evolution of Logistics

7.4 Introducing Distribution Systems in Logistics

7.5 Designs in Distribution Management

- 7.5.1 Plant to Market Direct Shipment
- 7.5.2 Direct Shipping with Milk Runs.
- 7.5.3 Direct Shipment via Distribution Centre (DC)

7.6 Cross Docking

7.7 Hub and Spoke Models

7.8 Let Us Sum Up

7.9 Further Reading

7.10 Answers to Check Your Progress

7.11 Model Questions

7. 1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the history and evolution of logistic management
- discuss the elements of logistic management
- learn about the history and evolution of logistics management
- explain the basics of Distribution Management
- learn the need and importance of distribution
- explain the concept of Direct shipping
- explain the concept of Milk Runs
- learn the importance of crossdocking in distribution
- describe the role of hub and spoke models in logistics.

7.2 INTRODUCTION

In this unit we will discuss about history and evolution of logistics and distribution system in logistics.Logistics enables effective and efficient flow from point to point within a process of value addition. Procurement, materials handling, storage and warehousing, order processing, inventory management, transportation and information processing are essentials of logistics management. Again effective distribution system ensures that the products are adequately distributed to the markets, or warehouses, or the customers. We will discuss these aspects broadly in this unit.

7.3 HISTORY AND EVOLUTION OF LOGISTICS

Logistics incorporates the systematic study of the flow of materials and information in any manufacturing or similar business process. Logistics enables effective and efficient flow from point to point within a process of value addition. Uninterrupted flow within any process is essential to ensure timely delivery of raw materials or semi-finished goods or finished goods, as the case may be, from the point of manufacturing or assembly or distributor to the customer concerned. For this purpose, a robust system needs to be in place, which can respond to variations of quantity, time, variety of the products desired at the customers end. For a sturdy system to be in place a plethora of activities work in congruence to achieve uninterrupted flow of resources. Procurement, materials handling, storage and warehousing, order processing, inventory management, transportation and most importantly information processing are essentials of logistics management.

The history of logistics is as old as the history of trade. Wherever trade existed logistics found its place, although documentary evidence to this is not possible to obtain. Bulk manufacturing and distribution found immense importance with the growth of ‘mandis’, ‘haats’ and similar other market places, though in primitive form and type. As markets ceased to be ***monopolistic***, the need for fulfilling customer demands and needs, though initially of miniscule nature, eventually began.



Monopolistic : A business or person possessing exclusive control over the supply or trade of a particular commodity or a particular business area.

Certain literature refers to the Roman and Greek military officers having assigned the duties of supply and distribution of resources during wars. However, the documentary evolution of logistics could be best obtained during World War II. The supply and resource base of Germany was tremendously damaged during the war. However, USA managed to provide arms and ammunition effectively and efficiently as and when required to its bases. In fact, USA explored the best possibility of providing such tasks. This is generally now referred to as military logistics. Logistics, however, took a formal shape in studies from this. A reference to logistics appeared in an article in 1898 in the Oxford English Dictionary. By 1950, the concept of transportation management gained popularity with handling of containers in ships, trucks, etc. With this, came in 'warehousing' and 'materials handling'. Parallelly to these, the techniques of optimization and during Operations Research techniques become popular. Prior to 1960, records where maintained manually. Later in during 1980, with the emergence and access to computer enabled preparation of flexible interfaces with spreadsheets enabled ease in maintenance of records and sharing of records. With developed computational techniques, scheduling, etc. became easier and led to its widespread popularity. Later by 1990, advances in logistics were propelled by Enterprise Resource Planning (ERP) solutions that brought a sea change that integrated the entire process beginning with manufacturing, distribution, warehousing as applicable up to the customers' end. This changed the way railways, trucks and even airlines could better optimize the processes.

Logistics is a sum total of materials management and distribution in any process. It includes the whole gamut of activities right from order processing till delivery of goods and services. In this context logistics find place in a series of activities in any business process. Advantages of logistics in any business process can be summarized as below:

a) Competitive edge

Logistics is the enabler for providing products and services with minimum of time and cost. This is possible by virtue of a robust scheduling mechanism whereby all of its components work in unison

to ensure timeliness and effectiveness. Scheduling is the amalgamation of sequencing, routing, dispatching, and expediting.

b) Procurement and Processing

Logistics ensures a smooth process for procurement of raw material, supplies from vendors with the timely delivery of the supplies at the shop floor to facilitate uninterrupted timeliness in production. Handling of materials received, necessary quality checks, onward movement of the materials, storage prior to production and post production is done in the umbrella of logistics.

c) Production

Logistics ensures smooth production process managing the flow of inventory in the shop floor, scheduling of material, temporary packaging wherever required and material handling. Logistics helps to reduce if not eliminate idle time of material and the machinery at hand.

d) Availability of finished goods

Finished goods are marketed, sold efficiently by virtue of logistics. Logistics arranges for adequate packaging, transportation, and distribution of goods to the customers' end. It facilitates matching of supply and demand requirements by the distribution function through inventory management systems.

Some of the major elements of logistics management are:

1. Customer Order Processing

The trigger for logistics is the customer order processing. Forecasts of orders and placed orders necessitate the process to facilitate the delivery of finished goods at the customers' end. The instant of receiving the order initiates order processing at the producers' end. The process begins with orders and necessitates activities for delivery of the products to customers.

The functions of order processing are precisely four viz., order receiving, order handling, order picking, and order fulfillment.

2. Inventory Management in Logistics

The instant at which order is received initiates management of inventory

at different stages. Flow of inventory in the form of raw material from vendors, to manufacturers to distributors and finally at the customers end is a continuous process. The variation is the type and form of inventory at different stages. The difficulty in accurate matching of demand and supply necessitates inventory holding in the different stages. Reasons for gap in are plenty; unavailability of accurate demands, production halts, sudden changes in tastes and preferences, etc. Inventories exist in different forms including raw materials, sub-assemblies, work-in-progress or finished goods. The process of routing inventory from different locations to the requisite stages is preceded by customer order processing, and the availability of inventory in the respective stages. Though unavoidable, the purpose of a well devised logistics system is to minimize inventory all along from order receiving to order delivery. The customer order initiates inventory decisions and flow in the distributors' level and the other upstream levels. The form and volume of inventory decides the type of warehouse required for storage or the mode of transportation and the type of transporter required. High volume low cost item runs less risk of damage or pilferage and in transit damages than the high valued counterparts. Inventory insurance is an added cost component.

Previously inventory used to be accumulated at all stages to compensate for uncertainties in orders received and to prevent stock outs. However owing to the influence of information technology and advanced managerial practices like Just-in-time (JIT), Total Quality Management, lean manufacturing, firms now operate with absolute zero levels of inventories.

3. Material Handling

Material handling encompasses the set of activities wherein all activities pertaining to the movement of movement, packaging and storing of inventory of different forms at different stages. It ensures uninterrupted flow of raw materials from sources for processing and of finished goods to the customers' end.

Objectives of Material Handling:

a) Uninterrupted flow of goods

b) Reduction of time of delivery of goods

c) Checking damage and wastage of items in packaging and transit.

d) Reduced cost of handling



CHECK YOUR PROGRESS

Q 1: Define Logistics.

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Q 2: State two objectives of material handling.

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4. Packaging

Packaging is the entire process through which a product is enclosed for delivering to the customers. It is inclusive of the physical cover to the product to safeguard the contents within till it reaches the end customer. Packaging goes ahead to draw the attention of prospective customers and to enable ease of handling during transit. The purpose is not merely to provide a protective capsule but to present it in a form that adds to customer delight through visual appeal.

Functions of Packaging in logistics parlance are-

a) To protect the materials from damages of transit and storage

b) To provide adequate protection from shocks and vibrations that happen during travel

c) To facilitate the ease of stackability of inventory using minimal space

d) To facilitate equal distribution of weight within the packages for automated handling equipments

e) To provide ease of handling to items requiring special care as those which are fragile or susceptible to damage in case of improper handling.

For fulfilling the functions stated, the various types of packaging used are tetra packs, corrugated boxes, wooden pallets, metal and alloy cans, plastic films, etc.

5. Transportation

Transportation in logistics is the movement of goods all along from the source (of raw materials) to the end user. It is not merely the carrier of goods in different forms, but the process that makes raw materials available at the source of production, flow of semi-finished goods and the availability of finished goods at the right place, time, and quantities**.**

The objective of transportation is to make availability of goods efficiently satisfying the customer demand by virtue of economies of scale in the flow process. Transportation uses different modes like roadways, railways, seaways, and airways. Sometimes more than one mode is used when it is called multi-modal transportation.

6. Warehousing

The flow of inventory of different forms from the source to the customers' end is a continuous process but with stoppages at storehouse. Raw materials waiting to be processed or assembled or finished goods waiting to be received by customers all need temporary storage arrangements. This process of providing temporary waiting arrangements is called warehousing. The purpose of warehousing is to ensure storage of the inventory preserving its characteristics and protecting from physical damages.Warehouses are also used for aggregations of products from different production sites before dispatching to markets, sorting of products for different geographical locations.

7. Customer Service

A customer in operations management is one who buys an end-product or avails a service for his/her own consumption or for the consumption of someone else. The product (or the service) is an outcome of a sequence of value-added activities.

Customer service is a process by which value-added services, which may be products or services, are made available to the

customers by virtue of a demand created at the market by the customer or through a strategy of the firm to push its products (or services) to the market for sale. The process begins with an order or a demand forecast data and completes with a trade-off between cost and the service of the same.

7.4 INTRODUCING DISTRIBUTION SYSTEMS IN LOGISTICS

Distribution is a critical element in logistics. Effective distribution system ensures that the products are adequately distributed to the markets, or warehouses, or the customers. The effective model successfully distributes the products across diversely located geographies across the globe. In fact distribution corresponds to the 'Place' in the 4Ps of marketing. Distribution is relevant to each pair of components in the chain. The criterion for choice of a specific model of distribution primarily depends on the objectives of the distribution system which could vary from being cost effective to responsiveness. Responsiveness is the ability of a distribution channel to fulfill a customer order. The sooner a channel fulfils the order, the more responsive is the channel towards the customers.

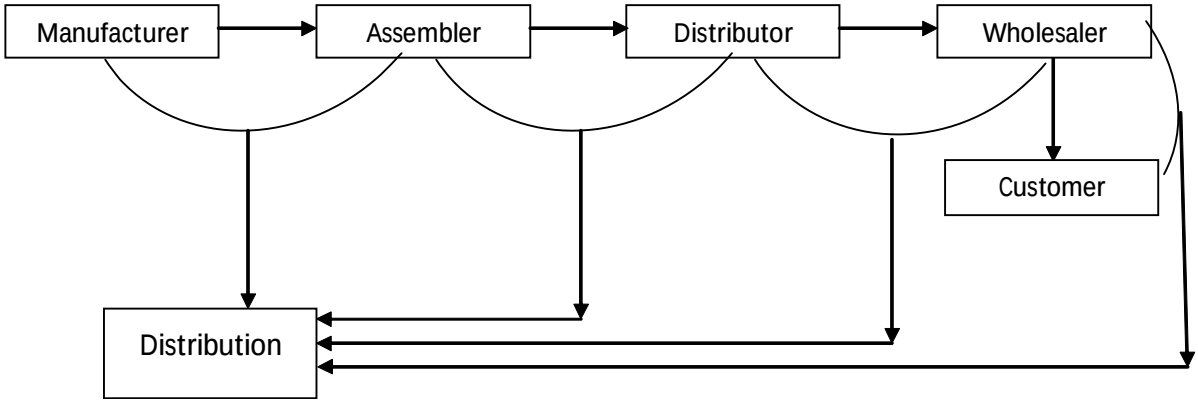


Fig 7.4: Distribution in place

Transparent distribution systems, ease of return are the results of a responsive system. On-line marketing sites are responsive distribution systems. Dell computers follow a responsive distribution system. A responsive system can cater to variety in the customer needs. Reverse logistics can be efficiently managed in a responsive distribution

system.Products of least technological life and innovative or customisednature require a responsive system. A responsive system is an agile system originating from the concept of lean manufacturing. The drivers of a responsive distribution system include a well-coordinated set of distribution partners, robust Information Technology interface and knowledge management. Infermation Technology evaleted Service (ITeS) with incorporation of ERP can successfully lead to development of a responsive distribution system.

7.5 DESIGNS IN DISTRIBUTION MANAGEMENT

7.5.1 Plant to Market Direct Shipment

In this type of distribution, products are directly shipped to individual markets from the manufacturing end. This is effective in cases where there is high volume requirement at each market together with low variation in demand. Generally, to ensure cost effective distribution the lot size tantamount to FTL in each shipment.

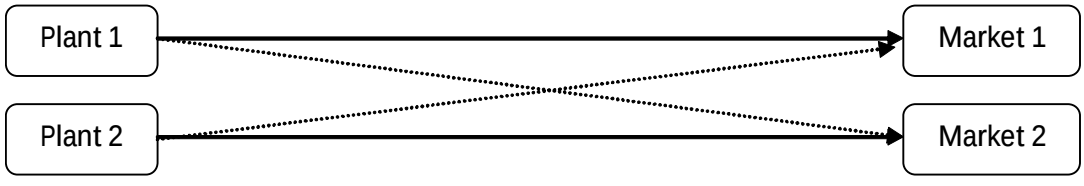


Fig 7.5.1: Plant to Market direct Shipment

As in the figure above, each Plant caters to the demands at each market separately in isolation of the fulfilment of demands by the other plants. Consequences of direct shipment include high cycle stock at each market from products from each plant. Direct shipment is commonly used for fertilizers, cement, and petrochemical companies.

A partial modification to this is the option of *drop-shipping*. Here, the manufacturer altogether bypasses the intermediaries including the distributor, wholesaler, etc. and directly ships to each customer. An added advantage to this is the ability of the manufacturer

to maintain a centralized inventory to cater to diverse customers. This enables maintenance of low inventory levels with high availability of the products. It further enables the manufacturer to postpone customisation after orders have been placed. Primarily used in online shopping, this process incurs high costs of shipping, though fixed costs of facilities are minimized. The process becomes cumbersome at the customers' end where the orders of a customer include products to be sourced from different sources. This makes the multiple shipments to be received at the customers' end and with varying response time for each shipment.

7.5.2 Direct Shipping with Milk Runs

Direct shipment using Milk Runs is accomplished by one truck from the plant which delivers many customers in a trip. Milk Runs compensates for the disadvantage of fulfilling small lot sizes of direct shipping. The process entails carrying of Full truck load in each trip. Costs of transportation are drastically minimized in Milk Runs in contrast to direct shipment as the number of trips is reduced. The process reduces the cycle stock inventory and is particularly useful where the lot requirements at each customers' end is less than Full truck Load size of inventory. Used widely in instances where the plants are all located nearby, Milk Runs are useful in cases of suppliers catering to a wide number of customers and practicing JIT particularly OEMs and auto parts manufacturers.

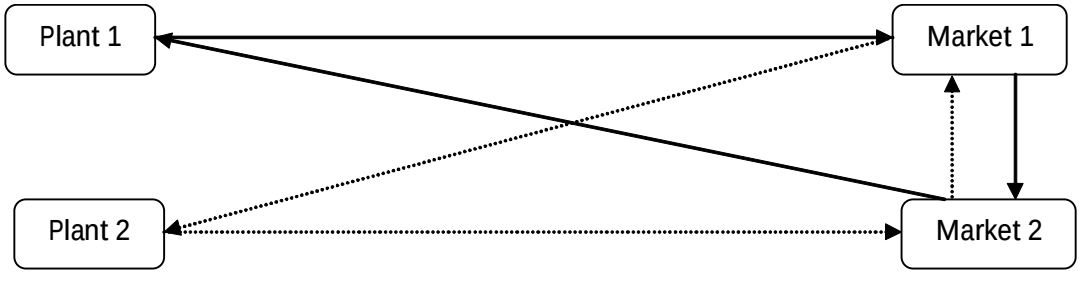


Fig 7.5.2: Direct Shipment with Milk runs

7.5.3 Direct Shipment via Distribution Centre (DC)

This distribution option is an amalgamation of direct shipment and Milk Runs. The advantages of one are used to offset the disadvantages of the other. The supplies from the plants are routed through a distribution centre prior to the destination. Goods or products are first received at the DC. Trips from the plants are made to the DC. Onward movement of inventory occurs from the DCs. The process facilitates in handling variety in customer requirements from different plants with minimal costs. The process enables aggregation of the supplies from different plants and helps in obtaining a centralized sorting facility. Major FMCG companies ship through Distribution Centres located in different zones across the country. The transportation costs are more than Milk Runs but lesser than direct shipment. However the maintenance of the Distribution Centre calls for an additional cost.

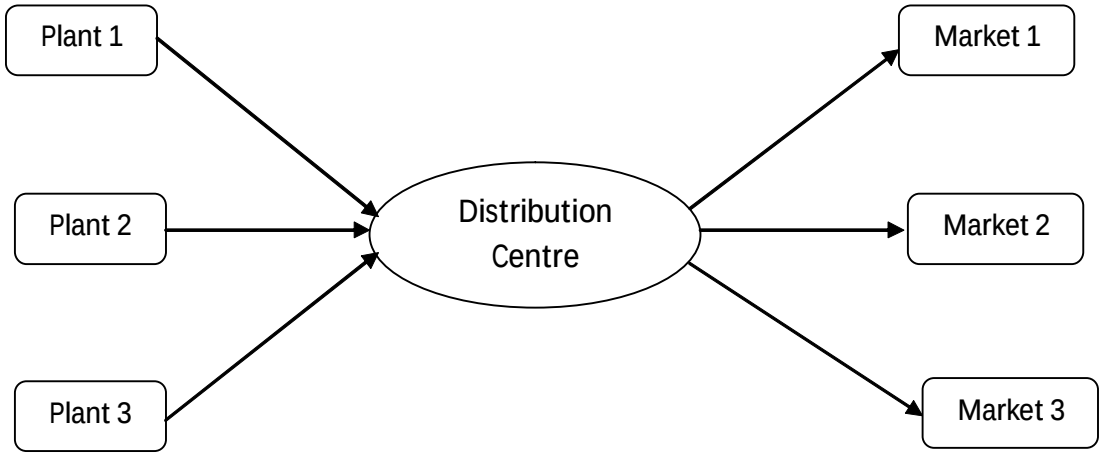


Fig 7.5.3: Direct Shipment via Distribution Centre



CHECK YOUR PROGRESS

Q 3: What is drop-shipping?

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Q 4: State an advantage of using direct shipment via a Distribution Centre.

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Q 5: State an advantage of using direct shipment through milk runs.

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7.6 CROSS DOCKING

Cross docking is a distribution system wherein supplies from a plant, supplier or manufacturer are distributed through a distribution docking terminal also known as a flow through warehouse. Products are received through inbound dock to be transferred to an outbound dock. The physical warehouse at the distribution centre is eliminated but the flow of the supplies follows the same trip. The trips are coordinated in such a way that the supplies are unloaded at a location only for uploading into another truck. The supplies or the products hence cross the dock from receiving dock to the shipping dock without stopping at a physical warehouse.

Cross docking was initiated in the US truck industry in the early Twentieth century which soon was followed by many larger companies including the Wal-Mart. This practice is extensively practiced in India truck industry. Toyota, MUL have also started introducing cross-docking in their business processes. Cross docking has also been used in Wal-Mart. Apparently simple in design, the process requires a precise coordination within the distribution system. The timeliness of vehicles can make or break the story. The dabbawallas of Mumbai have been using the principle of cross-docking. The lunch boxes picked up from the individual houses are marked for identification of the sources and are carried in the local trains. The boxes are unloaded from the train at specified destinations to be immediately collected by another dabbawala in hand carts for distribution in the destinations. The sorting and thereafter the collection of the boxes are carried out upon unloading from the train, which are sorted based on the destinations

marked on the boxes and are picked up by dabbawalla of specific routes accordingly.

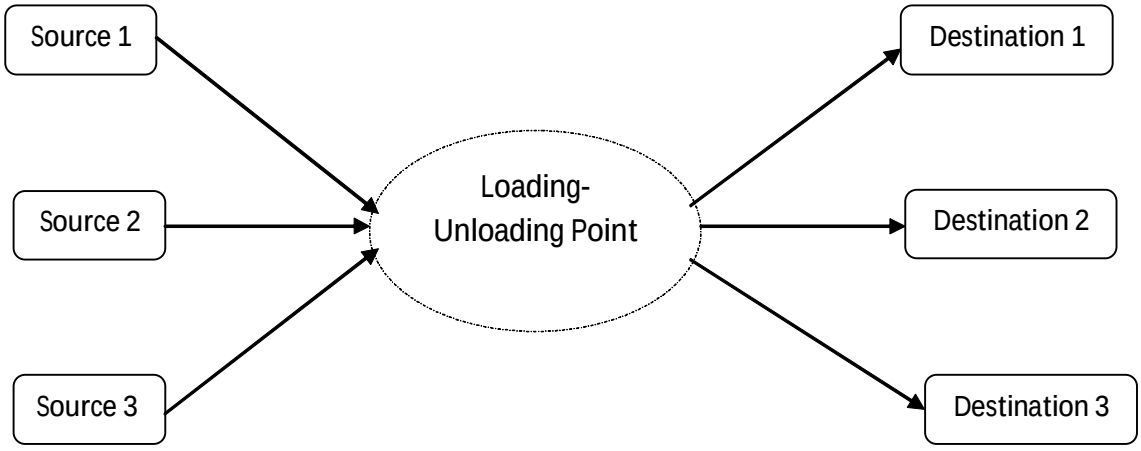


Fig 7.6: Cross docking through a flow through warehouse

Types of cross docking:

I. Continuous cross docking: Products or supplies from an inbound vehicle are immediately transferred into an outbound vehicle already in line

II. Consolidation arrangements: Products or supplies from more than one inbound vehicles are consolidated for transfer into a larger vehicle to obtain Full Truck Load.

III. Deconsolidation arrangements: It is the reversal of consolidation arrangement wherein products or supplies from a larger vehicle are sorted to be loaded into smaller number of vehicles for onward transportation. Cross docking practiced by the dabbawalas of Mumbai includes consolidation and deconsolidation arrangements.

Cross docking make the distribution system more responsive to meet the variations of demands at different destinations, adaptation to newer selling channels and reduced costs of transportation.

7.7 HUB AND SPOKE MODELS

Hub and Spoke model is a special type of Shipment via Distribution Centre popular with courier service. It originated in FedEx which eventually was adopted by almost all courier companies now. The model offers faster

deliveries, reduced costs and easy shipment tracking. The ease in shipment tracking is obtained through the reduction in the number of routes and simplified routing system in the network. It becomes easy to coordinate between customers geographically spread without much of the complications of sorting at each source or plant. Sorting can be postponed up to the hub, whereby sorting can be performed for onward movement flow of the supplies. It is such a centralized distribution system whereby supplies are shipped from the hub to smaller locations via local pick-ups. The advantages of hub and spoke model include lower inbound and outbound costs, maintenance of a single centralized hub, better inventory management at the centralized location though the administrative costs of maintaining the hub is added.

The model has significantly simplified the airlines eliminating the need of point-to-point aircrafts by the introduction of a hub whereby flights are diverted to it for the passengers to be picked up by smaller aircrafts in to their respective destinations. The model justifies the use of smaller aircrafts up to the hubs and wherever necessary based on size of traffic.Coca-cola, Hindustan Unilever are some companies that follow hub and spoke distribution system.

Hub and spoke in Courier service:

Let us consider a hypothetical courier service which has received orders on a particular day with details as below.

1. Darrang
   Let there be 5 letters to Nagaon, 2 letters to Dibrugarh and 1 letter to Kamrup(M)
2. Dhubri:
   Let there be 2 parcels to Kamrup(M), 1 to Dibrugarh and 3 to Nagaon
3. Dibrugarh:
   Let there be 4 parcels to Dhubri , 1 to Darrang.
4. Kamrup(M)
   Let there be 5 parcels to Dibrugarh and 4 letters to Dhubri

Diagrammatic representation for transporting the letters and parcels to the respective destinations is as below:

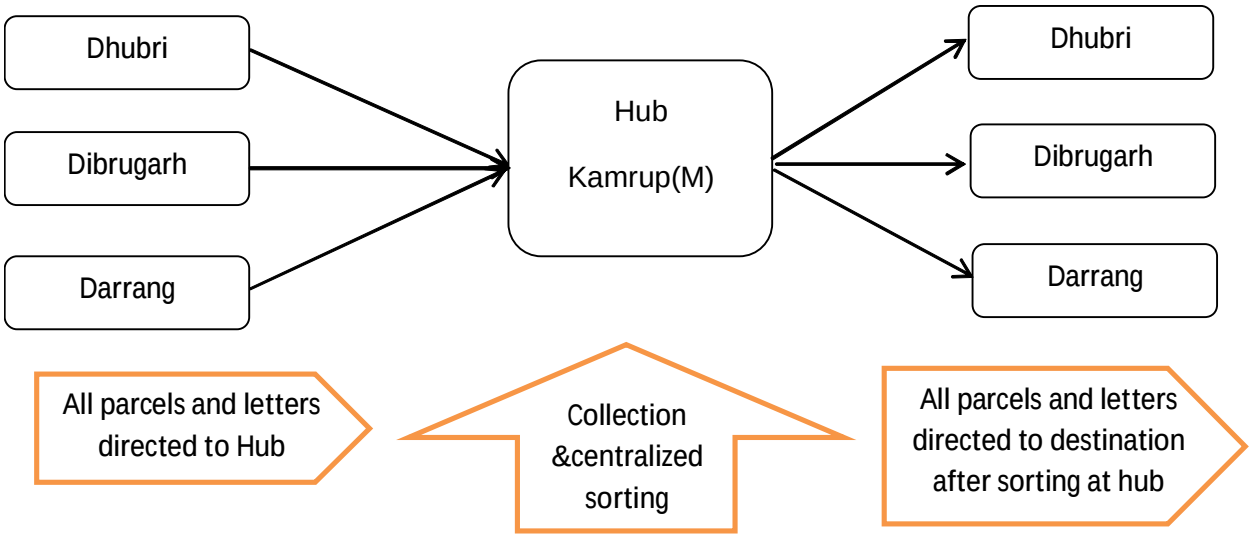


Fig 7.7: Example of Hub and Spoke model



CHECK YOUR PROGRESS

Q 6: What is Cross docking?

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Q 7: State two advantages of Cross docking.

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Q 8: What is hub and spoke model in transportation?

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7.8 LET US SUM UP

After going through the unit we have learnt the following:

- Effective distribution system ensures that the products are adequately distributed to the markets, or warehouses, or the customers.
- A responsive system can cater to variety in the customer needs.
- The drivers of a responsive distribution system include a well-coordinated set of distribution partners, robust Information Technology interface and knowledge management.

- Plant-to-market direct shipment is effective in cases where there is high volume requirement at each market together with low variation in demand
- Milk Runs are useful in cases where suppliers cater to a wide variety of customers
- Crossdocking is extensively practiced in the India trucking industry.
- A deconsolidation arrangement in crossdocking is the reversal of consolidation arrangement wherein products or supplies from a larger vehicle are sorted to be loaded into smaller number of vehicles for onward transportation.
- In hub and spoke model the ease in shipment tracking is obtained through the reduction in the number of routes.



7.9 FURTHER READING

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7.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: *Drop-shipping* is a partial modification to Plant-to-market

direct shipment. Here the manufacturer altogether bypasses the intermediaries including the distributor, wholesaler, etc. and directly ships to each customer.

Ans to Q No 2: Using direct shipment via a distribution centre facilitates in handling variety in customer requirements from different plants with minimal costs.

Ans to Q No 3: Using direct shipment through milk runs entails carrying of Full truck load in each trip, thereby reducing the costs of transportation

Ans to Q No 4: Cross docking is a distribution system wherein supplies from a plant, supplier or manufacturer are distributed through a distribution docking terminal. It is also known as a flow through warehouse.

Ans to Q No 5: Two advantages of Cross docking system are:

a) Elimination of physical warehouse at the distribution centre

b) Responsiveness of distribution system to meet the variations of demands at different destinations

Ans to Q No 6: Hub and Spoke model uses a centralized distribution system whereby goods supplies are shipped from the hub to smaller locations via local pick-ups.



7.11 MODEL QUESTIONS

Q 1: "Distribution is a critical element in logistics." Discuss.

Q 2: How has the distribution system influenced the responsiveness of a supply chain?

Q 3: What are the advantages of using milk runs over direct shipment?

Q 4: Discuss the advantages and disadvantages of cross docking.

Q 5: What are the different types of cross docking? Where are these different types used?

Q 6: How has the usage of hub and spoke model transformed the airlines sector? What advantages has it incorporated into the industry?

Q 7: What are the disadvantages of cross docking?

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