

**Sales and Distribution Management**  
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**Lecture – 39**  
**Channel Systems, Channel Management,**  
**Logistics and Marketing Channels: Part II**

[FL] Today, we will be continuing with our discussion on Channel Systems, Channel Management, Logistics and Marketing Channels and this shall be part II of the topic. We have already discussed part I yesterday and this will constitute as lecture 39 of our course on Sales and Distribution Management.

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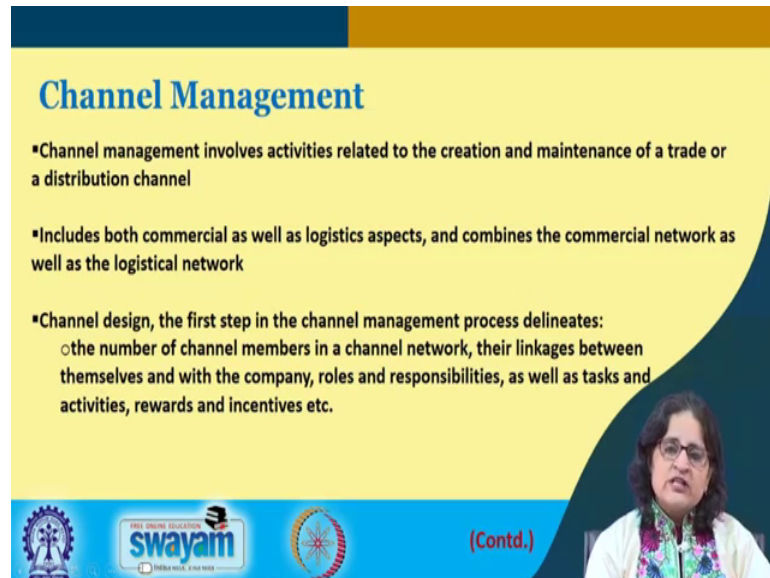


So, yesterday we discussed some concepts under channel management and we spoke about channel formats, marketing channel systems, channel design, steps involved in channel design, the channel design process and we also spoke about the selection of channel systems and the evaluative criteria used to decide on channel alternatives and channel systems.

We also talked about how it should be go about managing channel partners that is with respect to the selection, their training, their motivation, evaluation and so forth. In today's lecture which will be part 2 of this topic we shall be discussing channel

management and we should also be talking about logistics and marketing channels and this is lecture 39 of our course on sales and distribution management.

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**Channel Management**

- Channel management involves activities related to the creation and maintenance of a trade or a distribution channel
- Includes both commercial as well as logistics aspects, and combines the commercial network as well as the logistical network
- Channel design, the first step in the channel management process delineates:
  - the number of channel members in a channel network, their linkages between themselves and with the company, roles and responsibilities, as well as tasks and activities, rewards and incentives etc.

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So, let us first start with channel management now channel management involves activities pertaining to the creation and maintenance of a trade channel or a distribution channel or a marketing channel. And it includes both the commercial as well as the logistics aspects and combines the commercial network as well as the logistic network. In yesterday's lecture, we discussed how channel partners play important roles with respect to both the commercial aspect as well as the logistics aspect and the service aspects and they all need to be integrated to achieve efficiency and effectiveness of the channel.

Now, channel design, the first step in channel management process delineates the number of channel members in a channel network their linkages between themselves and with the company, the roles and responsibilities as well as tasks and activities to be performed by channel members and the reward system and the incentive system in place. So, this is what the channel design you know delineates.

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**Channel policies:**

- For effective functioning of the channel, it is important that channel policies are laid out; else it could lead to conflicts
- Channel policies provide guidelines for effective operation of the channel
- Policies and guidelines must be spelled out with respect to sales territorial coverage, product assortment to be handled, pricing policies, promotion policies, channel management (selection, training, evaluation and reward system for channel partners), channel power and captaincy etc.

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Now, what we need to discuss here is channel policies. For effective functioning of a channel, it is important the channel policies are laid out; otherwise it would lead to misunderstandings, it would lead to you know conflicts. And, channel policies in fact, would provide guidelines for effective and efficient operation of the channel. Now, these policies and guidelines must be very specifically spelled out with respect to the sales territorial coverage, the product assortment to be handled, the pricing policies, the promotion policies, channel management with respect to selection training evaluation and reward system for channel partners, channel power, as well as channel captaincy.

Now, what is channel captaincy? Yesterday, I did made mention of a channel captain. One of the members in the channel system whether it is the producer or the wholesaler or the retailer or the dealers or the stock is one of the partners assumes more power than the others and he acts as a channel partner, he acts as a channel captain and he exercises control over other channel members. So, so the channel captain becomes more is more powerful is more dominating and he exercises influence and control over other channel partners and over other channel members. He is what we refer to as the channel captain.

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Channel management comprises three elements:

- Power bases
- Channel co-ordination
- Channel conflict

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Now, channel management comprises three elements: a power bases, channel coordination and channel conflict. Let us discuss these one by one.

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•Power Bases

- Channel members are numerous and varied, with respect to needs and expectations and diverse goals and objectives; this gives rise to issues with respect to power and power dynamics
- The question of power comes in picture because of the dependency of the channel partners on each other; it is the extent of dependence which defines the power dynamics between channel partners
- The effective use of power bases helps achieve cooperation and coordination between channel members
- Five power basis (French and Raven):
  - Reward power: This relates to providing incentives for satisfactory and above-average performance
  - Coercive power: This relates to punishing for poor performance
  - Legitimate power: This kind of power emerges from legal foundations of contract
  - Expert power: Power emerging out of knowledge and experience of the channel partner
  - Referent power: Benefits emerging out of association with a reputed brand and a prestigious company

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Now, what do we mean by a power basis? If you if you define power we say power is the ability of A to have influence over B and make B do something which B would not have done otherwise. Now, why is A able to do exercise influence and command B is because A, because A is more powerful and what makes him more powerful? There is something

which A possesses which B cares about and whatever A possesses is something which is scarce, but very important to B. So, this leads to dependency of B over A or on A.

So, channel members here when we are numerous and varied and they have different needs and expectations and diverse goals and objects objectives and this gives rise to issues with respect to power and power dynamics. Now, because channel members have you know varied interests, they have their own goals and objectives often contradictory the others you know goals and interests. It can lead to a situation where some kind of a control has to be exercised by one of the channel partners so that the activities of the various channel members and channel partners can be coordinated and you know things can move in a more smooth manner, operations can be more smooth between the different channel partners.

So, the question of power comes in a picture because of the dependency of channel partners on each other and this actually you know with respect to power it is extent of dependence which defines the power dynamics between channel partners. So, the effective use of power bases helps achieve cooperation and coordination between channel members. Channel members have their own interests, they may have their own needs and expectations, they may have their own goals and objectives, but the fact remains that until and unless they work together, they will not be able to achieve overall organizational goals they will also not be able to be able to achieve their own goals and objectives as efficiently as if they work together and coordinate with each other together.

For this it is very important that power is exercised and the one of the members in the one of the partners in the channel system needs to exercise power, exercise control over other channel members so that there is cooperation and coordination between different channel members and it can lead to effectiveness and efficiency of operations. It can also lead to fulfillment of in objectives of whether it is for the manufacturer or the producer or for the wholesalers and retailers and other channel partners. So, all of them would benefit with some kind of cooperation and you know coordination with each other and this is something which can be best achieved through power.

So, channel members are numerous and varied with respect to needs and expectations and goals and objectives and this grid gives rise to power and power dynamics, the issues with respect to power and power dynamics and the issue of power comes in because of

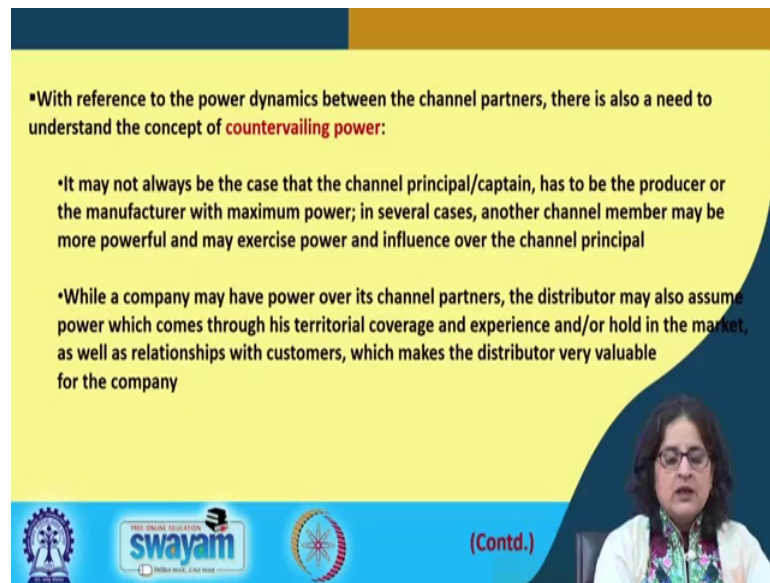
the dependency of channel members on each other and the extent of dependency defines the power dynamics between the channel members. And this is very very important that effective use of power bases you know are emphasized upon so as to achieve cooperation and coordination between channel members.

Now, French and Raven introduced five different kinds of power bases and according to them you know power could be a reward power or coercive power or legitimate power or expert power or referent power. These are five different kinds of power basis which were introduced by French and Raven and are have become very popular in management. So, you know in for management of in management whether it is with respect to critical application or practical application.

Now, what do we mean by reward power? The reward power relates to providing incentives for satisfactory performance and for above average performance. Coercive power relates to the use of threat or fear or punishment for poor performance. Legitimate power as the name goes emerges from the legal foundations of a contract or from a position which channel member holds.

Expert power is power which emerges out of knowledge and experience of a channel partner and if referent power is you know the benefits emerging out of association with a reputed brand and a prestigious company actually define a referent power. So, the effective use of the power bases will help achieve cooperation and coordination between channel partners.

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•With reference to the power dynamics between the channel partners, there is also a need to understand the concept of **countervailing power**:

- It may not always be the case that the channel principal/captain, has to be the producer or the manufacturer with maximum power; in several cases, another channel member may be more powerful and may exercise power and influence over the channel principal
- While a company may have power over its channel partners, the distributor may also assume power which comes through his territorial coverage and experience and/or hold in the market, as well as relationships with customers, which makes the distributor very valuable for the company

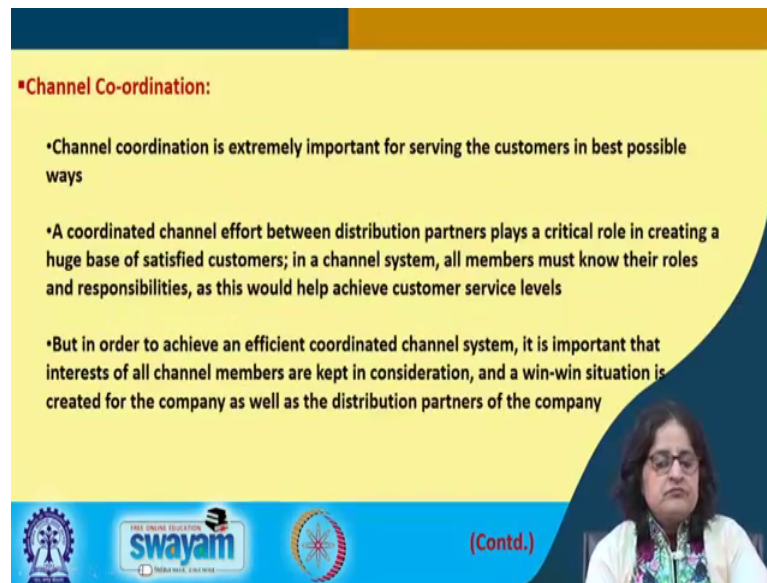
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With reference to power dynamics another thing we need to discuss as countervailing power. Now, with reference to the power equation and the power dynamics between channel partners we need to elaborate a little on the concept of countervailing power.

Now, it may not be always the case that the channel principal or the channel captain has to be the producer or the manufacturer with maximum power. In several cases, another channel member may be more powerful and may exercise power and influence over the channel principle or over the channel captain. So, while a company may have power over his channel partners, the distributor may also assume power which comes through his territorial coverage and his experience and or hold in the market as well as relationships with customers which makes the distributor very valuable for the company.

So, it is not essential or it is not always you know true that it is the channel it is the producer or the manufacturer who has to be the channel principal or the channel captain. Other members in the trade channel or the distribution channel can also assume more power and can act as channel captains.

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**Channel Co-ordination:**

- Channel coordination is extremely important for serving the customers in best possible ways
- A coordinated channel effort between distribution partners plays a critical role in creating a huge base of satisfied customers; in a channel system, all members must know their roles and responsibilities, as this would help achieve customer service levels
- But in order to achieve an efficient coordinated channel system, it is important that interests of all channel members are kept in consideration, and a win-win situation is created for the company as well as the distribution partners of the company

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The next thing that we need to discuss is channel coordination. Now, channel coordination is extremely important for serving customers as I just said that when there is a trade channel or marketing channel with numerous you know channel partners and channel members. They must coordinate with each other so that the different you know roles, responsibilities, tasks, activities, duties can be performed and whether it is the commercial part or the logistic part or the service part everything can be put taken care of all of these aspects can be taken care of in the best possible manner and the customer would be you know served more efficiently and effectively if they all work in coordination with each other.

So, a coordinated channel effort between distribution partners plays a very critical role in creating a huge base of satisfied customers and it is this coordination between the various channel members whether its producers or manufacturer, the wholesaler, the retailer, the stockist that the you know dealers etcetera which helps you know ensure that the sales happen and customers will have satisfied post sales; after-sales services are properly provided. And there is loyal base of customers which gets created so that sales repurchase and sales in future can also be ensured.

And so, a coordinated channel effort between distribution partners is very critical in creating a base of satisfied customers. So, in a channel system all members must know



their roles and responsibilities as that would help them serve the customer much better and they will be able to achieve customer service levels in the best possible manner.

But in order to achieve an efficient coordinated system, it is important that the interests of the various channel members are kept in consideration, and a win-win situation is created for the company as well as for the distribution partners of the company. As I just said a little while ago the various channel partners in the distribution network have their own goals and objectives, have their varied interests.

And, so, it is very important that you know the while guidelines are being formulated or policies and procedures are being laid out for you know efficient functioning of a channel system it is very important that interests of all the channel members are taken into consideration so that there is a win-win situation for all for the various channel members and all of them help each other achieve the company their own objectives as well as the organizational objective.

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**Channel Conflict:**

- Channel conflict denotes a situation of disagreement between channel partners
- Channel conflicts are bound to happen because of the different motivations of the channel partners and because each one of them wants to pursue their own goals; conflicts also occur on account of lack of clarity with respect to roles and responsibilities, and goals and objectives; or, perceived inequity with respect to distribution of resources
- Conflict also occur when any channel partner feels less important or exploited, or in case the independence of any channel partner is threatened, and when there is a resource constraint and channel partners compete with each other for resources
- Hence the conflict types may be categorized as goal conflicts (pertaining to objectives), domain conflicts (pertaining to roles and responsibilities and authority relationships) and perception conflicts (pertaining to individual assessment of the market trends, competitor strategies, and other environmental occurrences)

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The next thing that we need to discuss here is channel conflict. Now, whenever people work together conflict is bound to occur. As I just said there are diverse goals and objectives you know and perspectives which different channel members hold and this means that conflict is bound to happen while small and minor conflicts on the form of disagreements are healthy and functional for an organization. The problem occurs when the conflicts become too intense and severe. So, and because they become intense and

severe the activities in a distribution network or a channel get affected adversely leading to a dysfunctional form of a conflict which can be you know damaging to both the people both the channel partners in the distribution network as well as and for the company.

So, when we talk of a conflict what we mean is a situation of disagreement between channel partners. As I said conflict is bound to happen because of different motivations of channel members, channel partners and because each of them want to pursue their own goals. Conflicts also occur on account of lack of clarity with respect to roles, responsibilities, duties and with respect to goals and objectives or perceived inequity with respect to distribution of resources.

We all know that if in reality resources are always limited, they are always constrained and any kind of perceived inequity with respect to distribution of resources you know amongst channel members can lead to you know can lead to feelings of you know feelings of dissatisfaction and you know unhappiness in the channel partners which could lead to conflict later on.

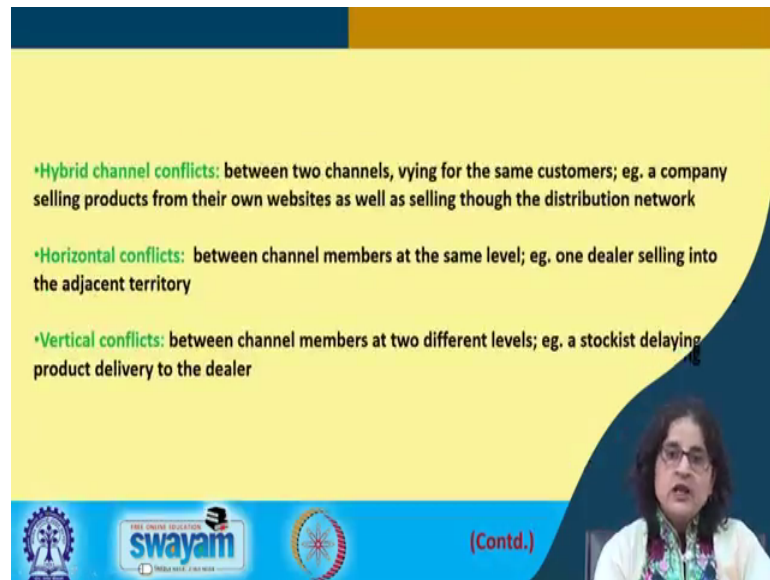
Conflict also occurs when in any channel partner feels less important or exploited or in case the independence of one of the channel partners is threatened and then when again when there is a resource constraint and channel partners are competing with each other for resources. So, in all of these cases what happens is that there is a feeling of discontentment between channel partners you know either within themselves or with the company and this can lead to problems within the distribution network affecting the channel partners as well as the company in the long run.

So, the conflict types here based on the different reasons which we have discussed may be categorized as goal conflict which pertains to the objectives where were in you know the channel partners have diverse goals and interests or they are unclear about the goals and objectives the domain conflict which pertains to the roles and responsibilities and the authority relationships where the channel partners are not very clear about the kind of roles and responsibilities that they must perform and also their you know issues with respect to a power and authority.

And, then there is you know perceptual conflict or perception conflict which pertains to assessment people you know differences in assessment of market conditions and market

trends, competitor strategies and other environmental occurrences. So, based on the different reasons which I we just discussed the conflict types may be categorized as goal conflicts, domain conflicts and perception conflicts.

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•**Hybrid channel conflicts:** between two channels, vying for the same customers; eg. a company selling products from their own websites as well as selling through the distribution network

•**Horizontal conflicts:** between channel members at the same level; eg. one dealer selling into the adjacent territory

•**Vertical conflicts:** between channel members at two different levels; eg. a stockist delaying product delivery to the dealer

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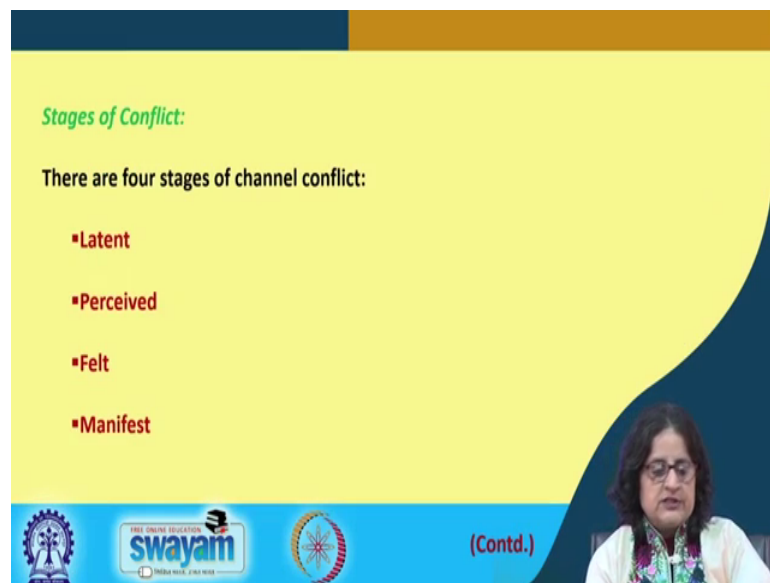
Now, conflict in a distribution channel may either occur between the channel members themselves or between the channel members and the company. And, whether it is a goal conflict or a domain conflict or a perception conflict, these conflicts may be further categorized as hybrid channel conflicts, horizontal conflicts and vertical conflicts.

So, what is a hybrid channel conflict? Now, hybrid channel conflict occurs between two channels, vying for the same customer or competing for the same customer; for example, a company selling products from their own websites as well as selling through distribution network. Now, here the company is using two different channels to sell its products and selling its products through its own website and its own e-channel, electronic channel as well as selling it through the distribution network, and both are competing for the for customers in the same target segment. So, this is what we refer to as a hybrid channel conflict.

The second is a horizontal conflict which occurs between channel members at the same level which is for example, one dealer cross selling into the territory of another or in to the adjacent territory. So, this is what we refer to as horizontal conflict. And, then we have the vertical conflict which is a channel members at two different levels; for

example, a stockist delaying product delivery to the dealer which means that the dealer fall short of assortment and so, he cannot sell the product or the brand to the customer. So, this is how we will define different kinds of conflicts whether it is the hybrid channel conflict or the horizontal conflicts or the vertical conflicts.

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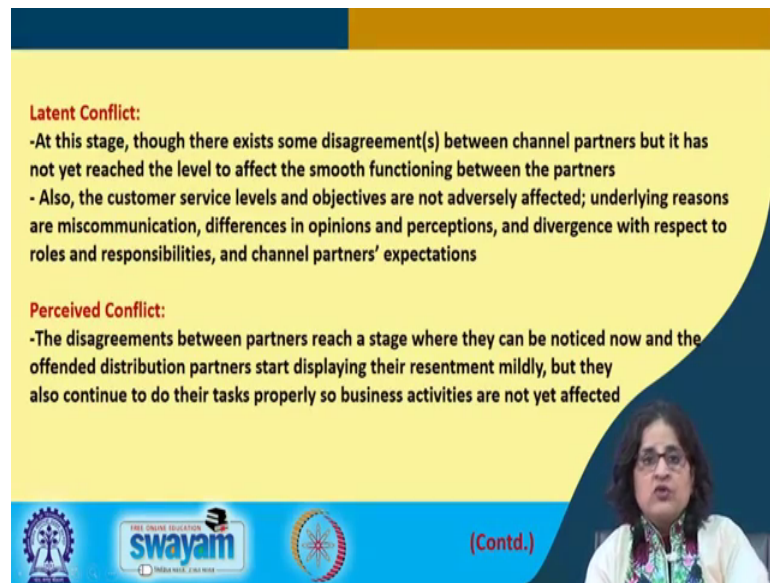


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Now, as I said some kind of a conflict is good for an organization it is healthy especially for this competition and it is healthy competition it is functional for the organization. And, you know because it is bound to happen because conflicts are bound to occur having this kind of a healthy conflict is not something which should be a cause of worry. However, sometimes conflicts go to assume very severe forms and that is where you know it is essential that some measures are taken by the company and with the distribution partner so that is that is forms of conflict can be can be can be avoided or this dysfunctional conflict can be avoided.

Now, talking about conflict and the various stages, there are four stages of channel conflict: the latent conflict, the perceived conflict, the felt conflict and the manifest conflict.

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**Latent Conflict:**  
-At this stage, though there exists some disagreement(s) between channel partners but it has not yet reached the level to affect the smooth functioning between the partners  
- Also, the customer service levels and objectives are not adversely affected; underlying reasons are miscommunication, differences in opinions and perceptions, and divergence with respect to roles and responsibilities, and channel partners' expectations

**Perceived Conflict:**  
-The disagreements between partners reach a stage where they can be noticed now and the offended distribution partners start displaying their resentment mildly, but they also continue to do their tasks properly so business activities are not yet affected

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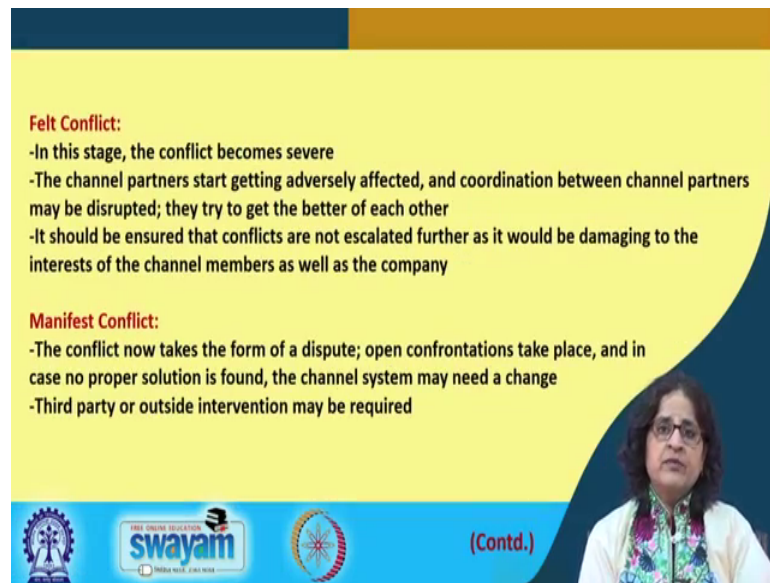
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In the latent conflict, there is some disagreement between channel partners, but it this disagreement has not reached a stage where the smooth functioning between partners is getting affected. So, you know there is some disagreement between channel partners, but it has not yet reached the level to affect adversely the smooth functioning between channel partners.

Also, the customer service levels and objectives are not adversely affected. The reasons underlying such conflict are due to miscommunication and misunderstandings, differences in opinions and perception and divergence with respect to roles and responsibilities and expectations. So, this is what we refer to as the latent conflict.

The second is the perceived conflict. Now, in perceived conflict the disagreement between partners reaches a stage where they can where the conflict can now be noticed and the offended distribution partners start displaying the resign resentment mildly. But, again here the activities do not get affected as channel partners continue to do their tasks properly and so business activities do not get affected.

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**Felt Conflict:**

- In this stage, the conflict becomes severe
- The channel partners start getting adversely affected, and coordination between channel partners may be disrupted; they try to get the better of each other
- It should be ensured that conflicts are not escalated further as it would be damaging to the interests of the channel members as well as the company

**Manifest Conflict:**

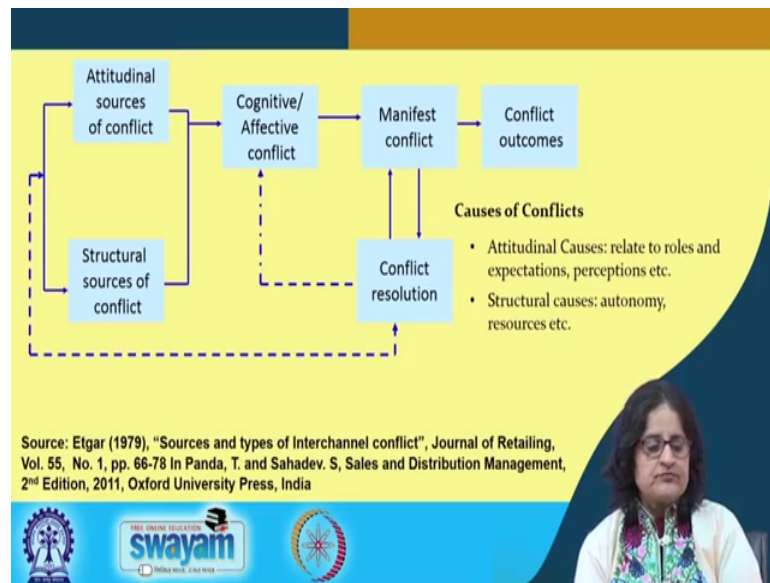
- The conflict now takes the form of a dispute; open confrontations take place, and in case no proper solution is found, the channel system may need a change
- Third party or outside intervention may be required

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The third is a stage of felt conflict. Now, in this particular stage the conflict becomes severe. The channel partners start you know openly you know damaging each other's interests and you know they the channel partners they start getting adversely affected, coordination between channel partners gets disturbed, and they one of them tries to get the better of the other. So, it here the business activities start getting affected, distribution check network activities begin to get adversely affected and so, it should be ensured that conflicts are not escalated further as it would damage the interests of the channel members as well as the company.

The fourth stage is the manifest conflict where now conflict becomes you know visible and it takes the form of a dispute, people can observe the kind of you know differences which channel partners have. They become very explicit, open confrontation takes place and in case no proper solution is found, the channel system may need a change. Third party or outside intervention may also be required.

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So, this is here we see in terms of conflict where there could be different reasons for a conflict which could be attitudinal sources or structure sources attitudinal source causes refer to or relate to the roles and expectations and the perceptions. And, the structural sources of conflict relate to the autonomy shows with respect to power, autonomy resource distribution of resources etcetera which lead to cognitive or affective conflict and that reaches a stage of manifestation.

And, in during this stage of manifestation it is must be ensured that there are some measures taken to resolve the conflicts and ultimately you know once the conflict if steps are not taken to resolve the conflict it could lead to dysfunctional outcomes for the organization. What do we mean by functional and dysfunctional outcomes is? That when conflict is healthy for example, in the kind of healthy competition it leads to higher productivity it leads to more efficiency and effectiveness and which means that it is beneficial for the organization, such a kind of a conflict is referred to as functional conflict.

And, on the other hand if there the conflict is very severe such that it adversely effects, the functioning of the organization and leads to inefficiency in effectiveness of operations are damaging both the interests of the distribution partners as well as of the company we refer to it as dysfunctional conflict.

So, functional conflict is healthy and good for an organization. This refers to very moderate kinds of conflicts in the form of minor disagreements, in the form of competition between channel members and that is something which is encouraged and which should be encouraged in the form of sales contests or sales you know meetings and contests.

But, then there is an unhealthy form of competition where one party damages the interests of the other such that the overall interests of the organization get affected and also the distribution network and the channel partners get affected. So, that is something which is dysfunctional and should be avoided as far as should be totally avoided. In fact, conflict resolution measure should be undertaken so that the conflict does not reach a stage where it is becomes very damaging for the channel partners as well as for the company.

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**Conflict Management Styles**

- Based on 'assertiveness' and 'co-operativeness', there are 5 different styles:
- Avoidance
- Competition or Aggression
- Accommodation
- Compromise
- Collaboration

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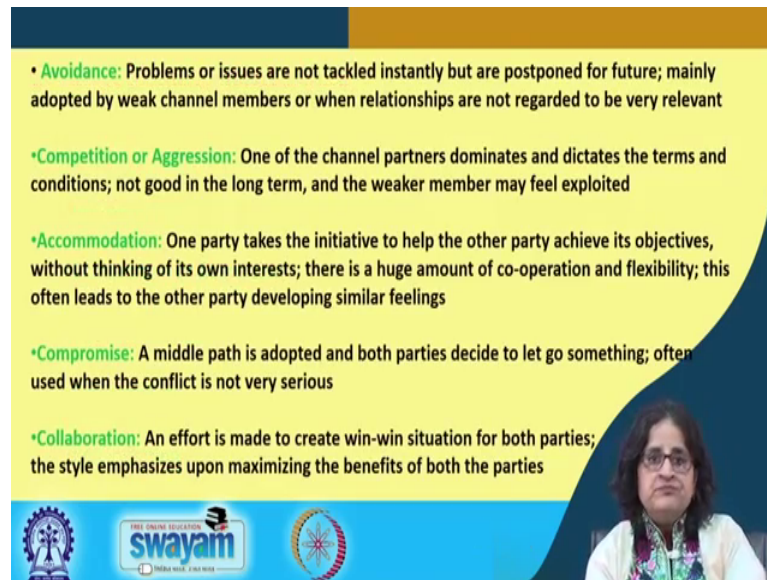
So, that brings us to styles of conflict management. So, based on the assertiveness of channel partner and the cooperativeness of a channel partner be it a producer manufacturer, wholesaler or retailer, dealer, stockist any of them we can classify conflict management styles into five different types – avoidance, competition or aggression, accommodation, compromise and collaboration.

So, based on assertiveness and cooperativeness of the channel members and these channel members could be any of the entities whether it is the producer, manufacturer,



the wholesaler, the retailer, the stockiest, the dealer any one of them you know based on the receptiveness and cooperativeness there are these five styles from avoidance and competition or aggression, accommodation, compromise and collaboration.

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- **Avoidance:** Problems or issues are not tackled instantly but are postponed for future; mainly adopted by weak channel members or when relationships are not regarded to be very relevant
- **Competition or Aggression:** One of the channel partners dominates and dictates the terms and conditions; not good in the long term, and the weaker member may feel exploited
- **Accommodation:** One party takes the initiative to help the other party achieve its objectives, without thinking of its own interests; there is a huge amount of co-operation and flexibility; this often leads to the other party developing similar feelings
- **Compromise:** A middle path is adopted and both parties decide to let go something; often used when the conflict is not very serious
- **Collaboration:** An effort is made to create win-win situation for both parties; the style emphasizes upon maximizing the benefits of both the parties

So, what do we mean by avoidance? Now in the case of avoidance the problems or issues which are actually leading to the conflict or which have led to the conflict are not tackled instantly, but are postponed for the future. It is mainly used by in cases in cases where channel partners are weak or where the relationship between channel partners are not regarded to be so important or significant that immediate action is required.

So, in some cases where either because channel partners are weak they just avoid the channel the power being exercised or the demand being exercised by the more dominating player and they keep quiet because they feel that they are weak. And, so, the problem or the issue is not taken up for you know consideration, but it is postponed for future. Avoidance is also used in cases where the relationship or the coordination between the channel partners is something which is not very essential and not very important and the problem the underlying cause of the conflict or the problem can be postponed for future.

The second strategy is competition or regression where one of the channel partners dominates and dictates the terms and conditions over another and this is not a good strategy in the long run as you know the weaker partners may feel exploited. And, it may

also so happen that the weaker partners may gradually unite with each other to give you know to give you know to later on to give and this would later on give rise to bigger problems.

The third style is accommodation where one party takes the initiative to help the other party achieve its objectives without thinking of its own interests and there is a huge amount of cooperation between them lot of flexibility. And this often leads to the other party also developing similar feelings because the other party feels obligated morally obligated that yes, if the other channel partner is helping me so much even I must you know help the other channel partner and if we must both cooperate with each other rather than only one of them cooperating. So, you know the party which takes the initiative to help another party can gradually receive a mutual you know we can receive a similar treatment from the other party as well.

Then the next style is compromise. A middle path in a middle path is adopted and both parties decide let go you know something they both decided to sacrifice something and this is used to when conflict is not very severe and then we have collaboration which is an effort to create max win-win situation for both the parties where the both parties conflicting parties or conflicting channel partners here in the our case decide to get together and work together and so, ultimately what the result is that there is a benefit for both the parties.

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**Logistics and Marketing Channels**

- Sales and distribution management relates to outbound logistics of the company, which is delivery of the finished goods from the manufacturer to the end customer
- Both sales and distribution management and logistics affect one another
- The logistics strategy of a company is drawn from the distribution strategy, which in turn is based on the marketing strategy
  - The objective is efficiency and effectiveness in operations and activities so as to ensure that the right goods reach the right place, at the right time, and in the right quantity
  - A good logistics strategy aims at cost reduction and capital reduction (i.e. minimizing investment in logistic systems and operations)
- Materials management helps assure successful logistics as well as supply chain management

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Now, this brings us to the last topic in this particular chapter which is logistics and marketing channels. Now, sales and distribution management relates to the outbound logistics of the company which is the delivery of the finished goods from the manufacturer to the end consumer. And, both sales and distribution management and logistics affect one another.

The logistics strategy of a company is based on the distribution strategy which again is based on the marketing strategy. Now, the objective or you know in terms of you know distribution or in terms of reaching the end customer is that there is efficiency and effectiveness in operations and activities so as to ensure that the right goods reach the right place at the right time and in the right quantity. And, a good logistic strategy aims at cost reduction and capital reduction.

Now, a cost reduction relates to reducing the cost of operations; capital reduction refers to minimizing investments in logistic systems and operations. And, whether it is you know the logistics or the more sophisticated supply chain management both of them work on the same principle which is to ensure that the right goods in the right amount reach the right place at the right time and at the right price and so materials management helps assure successful logistics as well as supply chain management. Now, let us talk about what is logistics and how is does it get related to distribution management.

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**Physical distribution:**

- Starts at the factory, and involves delivery of the product to its final destination
- The scope of physical distribution has broadened into concepts of Logistics and Supply Chain Management

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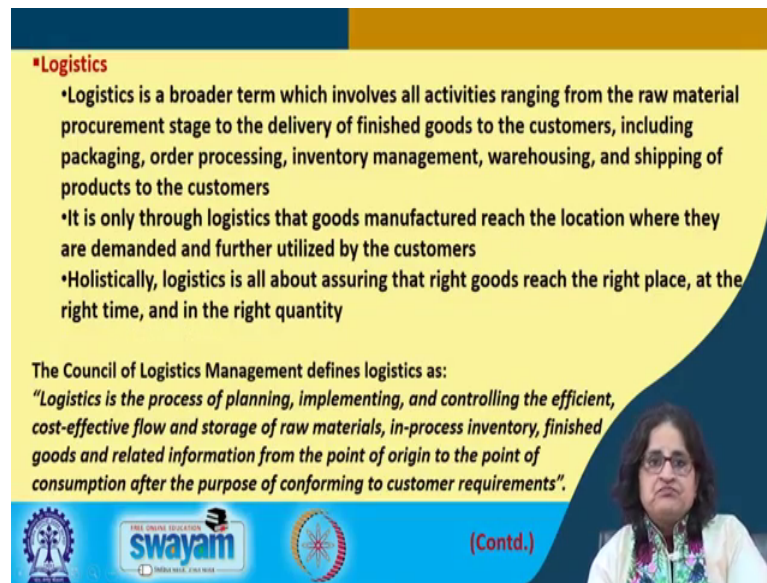
Now, we start with ah brief you know mention of physical distribution which starts at the factory and involves the delivery of products finished products to the final destination. The scope of physical distribution today has broadened into concepts of logistics and supply chain. Now, earlier companies were very contented with ensuring that the finished product reaches the end customer and so the term which was used was physical distribution which meant that the process starts at the factory, the products are distributed in the end or the finished product reaches the final destination to the customer.

However, it was realized that it is not only the finished product which must reach the end customer on time, but it is also the raw materials and work and work in progress as well as components, parts, supplies which must reach the factory at the right time from the vendors and from the suppliers so that production can happen as on time as planned and so that the finished product is also ready to be dispatched to the final destination at the right time.

So, this broadened the scope of you know the so called distribution which was no longer outbound where in the finished product must reach the end customer or the final destination, but it was also inbound where the raw materials components, parts and supplies or work in progress must reach the manufacturer or the producer from the vendors and the distributors on time from the vendors and the suppliers on time.

So, the scope of physical distribution broadened so as to include both the outbound logistics as well as the inbound logistics and this you know let to the scope of physical distribution broadening into concepts of logistics and supply chain management.





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**Logistics**

- Logistics is a broader term which involves all activities ranging from the raw material procurement stage to the delivery of finished goods to the customers, including packaging, order processing, inventory management, warehousing, and shipping of products to the customers
- It is only through logistics that goods manufactured reach the location where they are demanded and further utilized by the customers
- Holistically, logistics is all about assuring that right goods reach the right place, at the right time, and in the right quantity

The Council of Logistics Management defines logistics as:  
*"Logistics is the process of planning, implementing, and controlling the efficient, cost-effective flow and storage of raw materials, in-process inventory, finished goods and related information from the point of origin to the point of consumption after the purpose of conforming to customer requirements".*

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Now, logistics is a broader term as compared to physical distribution which involves all the activities ranging from raw material procurement stage to the delivery of the finished product you know to the customers including packaging of the product or the processing inventory management, warehousing and transportation. So, it is only through logistics that the goods manufactured reach the location where they are demanded and they can be further used by the customers. So, holistically logistics is about assuring that the right good reach the right place at the right time and the right quantity and this is the fundamental of the distribution net network objective as well.

We have been discussing all these days that marketers always are concerned with ensuring that the right product reaches the right customer right customer at the right time at the right place and so, here in we find the relationship between sales and distribution management and logistics. Both go in together and fact the council of logistics management defines logistics as the process of planning implementing and controlling the effective and efficient sorry, the controlling the efficient cost effective flow and storage of raw materials in process inventory, finished goods and related you know reformation from the point of origin to the point of consumption after the purpose of confirming to customer requirements.

So, if we what we see here is that there has to be a cost effective flow of inflow of material, raw material into an organization which must be then converted into a product

and then the product also has to you know it moved or transported from the point of origin to the point of consumption you know in the most cost effective manner so that the right product reaches the customer at the right time and at the right price in the right quantity and at the least cost.

So, this is where we see that the two principles that the principles of logistics as well as of the distribution network go together hand in glove and that is how we say that the sales and distribution strategy of the organization you know is actually should go hand in glove with the logistics and supply chain management practices exercised by the organization.

So, if we go back and we see the relationship here that the logistic strategy of a company is drawn from the distribution strategy which in turn is based on the marketing strategy. The objective is efficiency and effectiveness of operations and activities to ensure that the right goods reach the right place at the right time in the right quantity and you know with cost reduction and with capital reduction. So, that is where and we see that how both sales and distribution management and logistics effect one another.

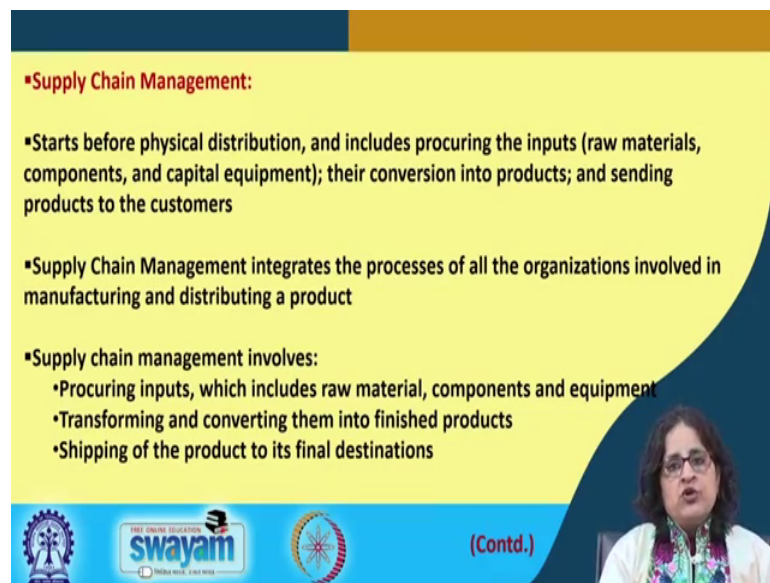
Until and unless there is an inbound flow of raw material and an outbound flow of the finished products you know the product will not be able to reach the end customer at the right time at the right place, in the right quantity and at the least price and if this does not happen this even if the salesperson has put in the maximum of efforts he will not be able to succeed because the product or the end product has will not be able to reach the customer on time and so the customer will be left antagonized and he will not want to continue business with the company.

So, what we are saying is that a salesperson may put in as much effort as possible, he may be the best performer in his team, he may earn sales volume, he may earn say orders, he may have you know taken orders, but until unless these orders are fulfilled on time and you know in the right quantity at the right place. You know things will just not move and it you know the orders will even if the orders have been secured it just takes a minute for enough for the customer to cancel the orders and all the efforts of the salesperson will go in vain.

So, even the best of sales persons and his performance and his efforts would be futile if he is not well supported by the distribution network, by the channel partners and by the

logistic strategy of an organization. That is how sales and distribution management and logistics affect each other and they must both move together. I repeat a sales persons efforts goes in vain until unless the order that he has secured is completed and delivered on the at the right time at the right place, in the right quantity and at the least price and so, it is very important that both the logistical strategy as well as the sales and distribution strategy of an organization move together hand in glove.

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▪Supply Chain Management:

- Starts before physical distribution, and includes procuring the inputs (raw materials, components, and capital equipment); their conversion into products; and sending products to the customers
- Supply Chain Management integrates the processes of all the organizations involved in manufacturing and distributing a product
- Supply chain management involves:
  - Procuring inputs, which includes raw material, components and equipment
  - Transforming and converting them into finished products
  - Shipping of the product to its final destinations

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Now, a little more about logistics and supply chain; now, supply chain starts before physical distribution and includes procuring the inputs and their conversion into products and sending the final product to the consumer. It integrates the processes of all organizations involved in manufacturing and distributing a product, and involves procuring inputs which includes raw materials components and equipment, transforming them into products and then shipping the products of the final destination.

Now, the question that may be asked is that then how do we you know differentiate between logistics and supply chain. Some people use these two terms synonymously where they say that both supply logistics and supply chain are the same and in other cases distinction is drawn between logistics and supply chain. Wherein it is emphasized that where logistics pertains to the organization, supply chain is broader and it integrates the processes of all the organizations involved in manufacturing and distributing the product.

So, the horizon of supply chain is broader while logistics deals with the company, within the company and the suppliers and distributors in terms of inbound and outbound. The supply chain integrates the processes of the suppliers and the vendors and versus the dealers and the distributors and integrates the processes of all the organizations involved in manufacturing and distributing a product.

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▪ **Major Decisions in Market Logistics:**

Four major decisions:

- Order processing
- Inventory management
- Warehousing
- Transportation

*Increasing trend towards Third Party Logistics*

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So, what are the major decisions in marketing logistics? There are four major decisions or the processing, inventory management, warehousing and transportation. Of course today we see that majority of the activities whether it is with respect to inventory management or warehousing or transportation is being very systematically and scientifically done by third party logistic providers.



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▪Order processing:

- How should orders be handled?
  - Order-to-payment cycle
- Securing the order, bill and invoice preparation, packaging and dispatch
  - Objective: speed and accuracy of transactions, delivery and receipt of payments

Order processing, right from order to payment cycles must be well-documented and proper records must be maintained; this would help reduce order cycle times, reduce lead times, ensure accuracy and reduce chances of error, as well as lead to timely billing and invoicing, and receipt of payments

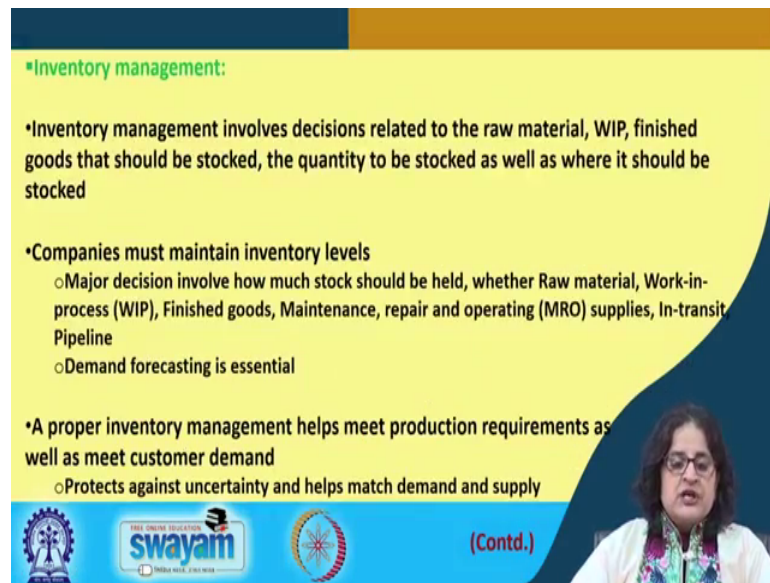
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So, let us first start with order processing. Order processing implies how should orders be handled. So, this refers to the order to payment cycle which is securing the order bill and invoice preparation, packaging and dispatch of the final product and the objective here is to ensure speed and accuracy of transactions and delivery and receipt of payments, delivery of the product and receipt of the payments.





So, order processing right from order to payment cycles must be well documented and proper records must be maintained. So, this would help reduce order cycle times, reduce lead times, ensure accuracy and you know ensure that chances of error are reduced and there is timely billing and invoicing and receipt of payments.

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**Inventory management:**

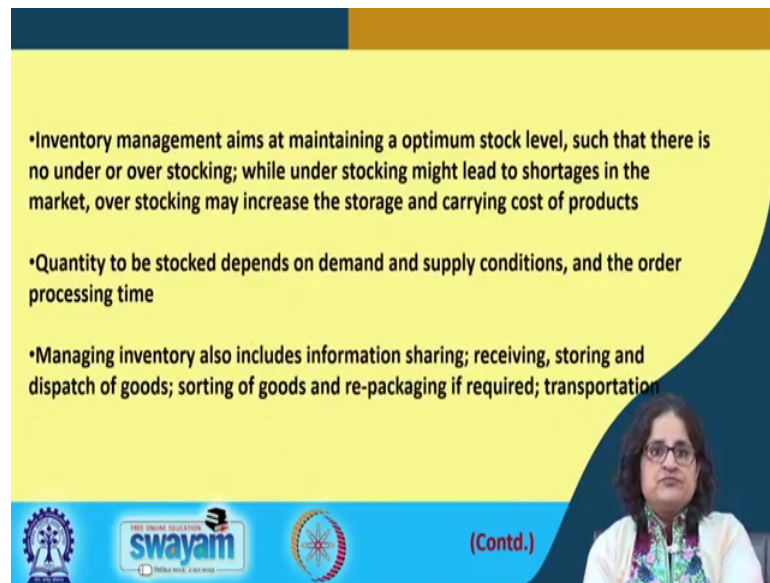
- Inventory management involves decisions related to the raw material, WIP, finished goods that should be stocked, the quantity to be stocked as well as where it should be stocked
- Companies must maintain inventory levels
  - Major decision involve how much stock should be held, whether Raw material, Work-in-process (WIP), Finished goods, Maintenance, repair and operating (MRO) supplies, In-transit Pipeline
  - Demand forecasting is essential
- A proper inventory management helps meet production requirements as well as meet customer demand
  - Protects against uncertainty and helps match demand and supply

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The next is inventory management. Now, inventory management involves decisions related to raw material, work in progress, finished goods that should be stocked the quantity to be stocked as well as where they should be stocked and companies must maintain inventory levels because the proper inventory management helps meet production requirements as well as customer demand.

It helps protect against uncertainty, it matches demand and supply and so, it is very very important that demand forecasting is done accurately. So, major decisions involve how much stock should be held, whether raw material or work-in-progress and work in process or finished goods or MROs which is Maintenance, Repair and Operating supplies, in-transit, pipeline etcetera.

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•Inventory management aims at maintaining a optimum stock level, such that there is no under or over stocking; while under stocking might lead to shortages in the market, over stocking may increase the storage and carrying cost of products

•Quantity to be stocked depends on demand and supply conditions, and the order processing time

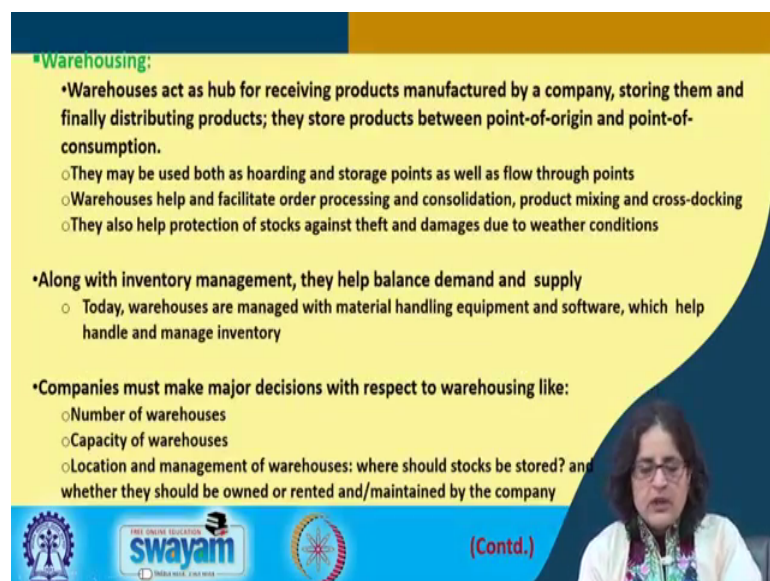
•Managing inventory also includes information sharing; receiving, storing and dispatch of goods; sorting of goods and re-packaging if required; transportation

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So, inventory management aims at maintaining optimum stock levels, such that there is no under stocking or over stocking; while under stocking can lead to shortages in the market for the final product, over stocking may increase the storage and carrying cost of products. So, you know managing inventory involves information sharing receiving storing and dispatch of goods sorting out of, sorting of goods and repackaging if required transportation etcetera.

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•Warehousing:

•Warehouses act as hub for receiving products manufactured by a company, storing them and finally distributing products; they store products between point-of-origin and point-of-consumption.

- They may be used both as hoarding and storage points as well as flow through points
- Warehouses help and facilitate order processing and consolidation, product mixing and cross-docking
- They also help protection of stocks against theft and damages due to weather conditions

•Along with inventory management, they help balance demand and supply

- Today, warehouses are managed with material handling equipment and software, which help handle and manage inventory

•Companies must make major decisions with respect to warehousing like:

- Number of warehouses
- Capacity of warehouses
- Location and management of warehouses: where should stocks be stored? and whether they should be owned or rented and/maintained by the company

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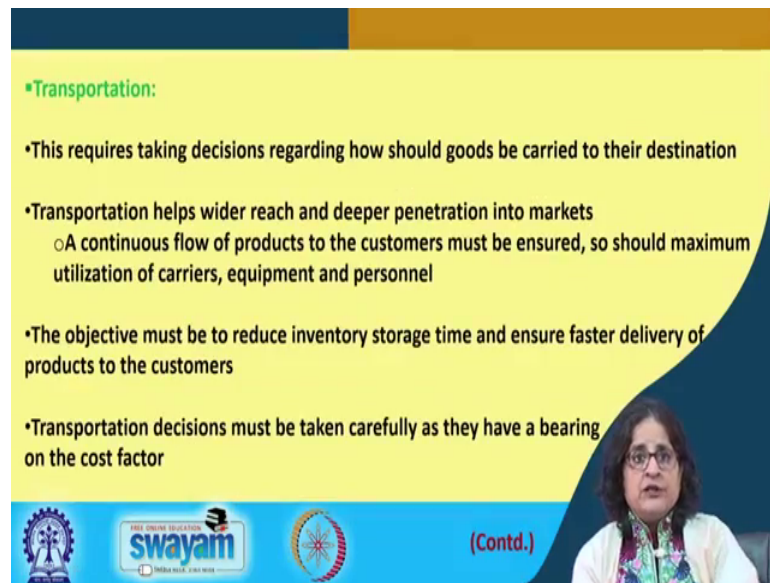
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The third is warehousing: warehousing here you know is something which is very very critical for organizations and warehousing decisions are extremely crucial because warehousing you know can involve a lot of capital investment if these warehouses are owned by the company. Most companies prefer you know taking services from warehouse agencies and the third party logistics to take care of their warehousing operations.

Now, warehouses act as a hub for receiving products manufactured by a company storing them and finally, distributing the products. So, they store products between point of origin and point of consumption and they may be used both as a holding point or as a flow through point and they help facilitate order processing and consolidation, product mixing, cross docking and they help protection of stocks against theft and damages and another damages due to weather conditions. Along with inventory they help; along with inventory management they help manage they balance the demand and supply.

And, companies need to make major decisions with respect to the number of air houses, the capacity, the location and management of warehouses and where should stocks be stored you know and whether they should be owned or rented or maintained by the company. So, that these companies must take decisions like how many warehouses, what should be the size and capacity, where should they be located and how should they be managed whether they should be owned or rented and or you know and all maintained by the company.

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•Transportation:

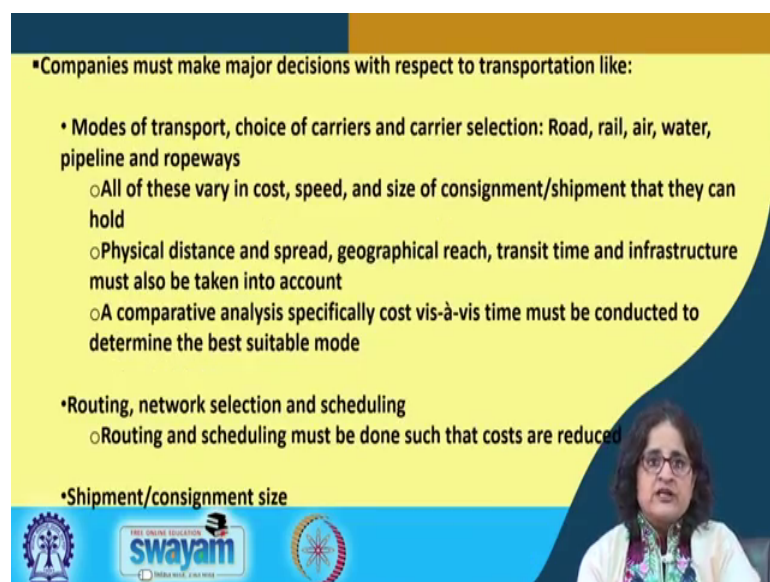
- This requires taking decisions regarding how should goods be carried to their destination
- Transportation helps wider reach and deeper penetration into markets
  - A continuous flow of products to the customers must be ensured, so should maximum utilization of carriers, equipment and personnel
- The objective must be to reduce inventory storage time and ensure faster delivery of products to the customers
- Transportation decisions must be taken carefully as they have a bearing on the cost factor

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The third is transfer transportation which requires taking decisions regarding how should goods be carried to their final destination and so, transportation is something which helps wider reach and deeper penetration into markets. The objective again here is to reduce inventory storage time and to ensure faster delivery of products. And, transportation decisions must be carefully taken as they have a bearing on the cost factor.

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•Companies must make major decisions with respect to transportation like:

- Modes of transport, choice of carriers and carrier selection: Road, rail, air, water, pipeline and ropeways
  - All of these vary in cost, speed, and size of consignment/shipment that they can hold
  - Physical distance and spread, geographical reach, transit time and infrastructure must also be taken into account
  - A comparative analysis specifically cost vis-à-vis time must be conducted to determine the best suitable mode
- Routing, network selection and scheduling
  - Routing and scheduling must be done such that costs are reduced
- Shipment/consignment size

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So, important decisions that need to be taken are with respect to modes of transport, the choice of carriers and carrier selection, whether it is road or rail or air or water or

pipeline and roadways ropeways. Now, all of these vary in cost in speed and you know the size of consignment that they can handle and the physical distance, and spread, geographical reach, transit time as well as infrastructures needs to be taken into account.

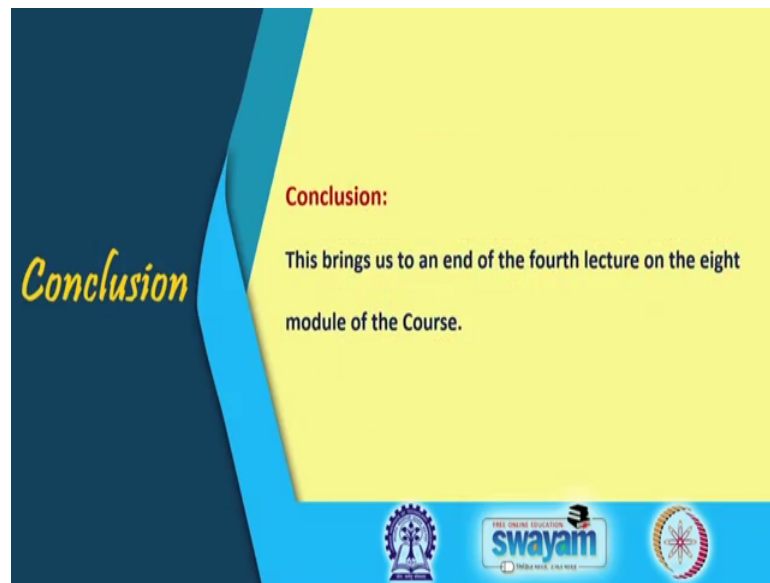
And, a comparative analysis must be done wherein cost vis-a-vis time you know to reach the customer must be conducted to determine the best suitable mode. Routing, networking and scheduling are again important issues that need to be addressed. So, that cost can be reduced and also the shipment and the consignment size needs to be decided and take need accordingly.

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So, with this we come to an end of our lecture on channel systems. The references are as follows.

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And, this brings us to an end of the 4th lecture on the 8th module of the course. I hope you have found this lecture beneficial.

Thank you.