B2B Marketing

By

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Module-I

B2B Marketing:

B2B (business-to-business) **marketing** is **marketing** of products to businesses or other organizations for use in production of goods, for use in general business operations (such as office supplies), or for resale to other consumers, such as a wholesaler selling to a retailer.

Importance of Business Marketing:

Business market serve the largest market of all: The rupee volume of transactions in the industrial or business market significantly exceeds that of the ultimate consumer market. In the business market, a single customer can account for an enormous level of purchasing activity.

Getting Word Out

For a business to succeed, the product or service it provides must be known to potential buyers. Without marketing, the potential customers may never be aware of the business offerings and the business may not be given the opportunity to progress and succeed.

Higher Sales

Once the product, service or company gets the response from prospects, it increases your chances that consumers will make a purchase. As awareness becomes a reality, it is also the point where new customers start to spread the word, telling friends and family about this amazing new product they discovered. Sales will steadily increase as the word spreads. Without employing marketing strategies, these sales may not have ever happened; without sales, a company cannot succeed.

Company Reputation

The success of a company often rests on a solid reputation. Marketing builds brand name recognition or product recall with a company. As your reputation grows, the business expands and sales increase. The reputation of your company is built through active participation in community programs.

Healthy Competition

Marketing also fosters an environment in the marketplace for healthy completion. Marketing helps keep pricing competitive for a business to try to win over consumers before its competition does. Without competition, well-known companies would continue to sell while lesser known companies or new companies would stand little chance of ever becoming successful. Marketing facilitates the healthy competition that allows small businesses and new businesses to be successful enter and grow in the marketplace.

Business Marketing vs Consumer Marketing:

Business Marketing

Business Marketing refers to the sale of either products or services or both by one organization to other organizations that further resell the same or utilize to support their own system.

Examples **-** (Industrial marketing)

1. Office furniture (Cabinets, desks, workstations, drawers) **-** End user will not purchase workstations for his own use at home.
2. Bulk SMS service (utilized by organizations)

Consumer Marketing

On the other hand refers to the transaction of goods and services between organizations and potential customers. In consumer markets, products are sold to consumers either for their own use or use by their family members.

Examples –

1. ***Fast Moving Consumer Goods*** (FMCG) - Fast moving consumer goods are items that are sold quickly to the end-users generally at nominal costs. Example - Aerated drinks, grocery items and so on.
2. ***Consumer Durables*** - Goods that a consumer uses for a considerable amount of time rather than consuming in one use are categorized under Consumer Durables.
   Consumer Durables are further categorized into - White Goods and Brown Goods
   a) ***White Goods*** - (Refrigerators, Microwaves, air conditioners and so on (Majorly all household appliances)
   b) ***Brown Goods*** - (Television, CD Players, Radio, Game Consoles (Majorly used for entertainment and fun)
3. ***Soft Goods*** **-** Soft goods are products which have a shorter lifecycle and their value decreases after every use. E.g. shirts, clothes, shoes.

Difference between Business Marketing and Consumer Marketing:

Areas of difference	B2B market	Consumer Market
Market characteristics	• Geographically concentrated • Relatively fewer buyer	• Geographically disbursed • Mass market
Product characteristics	• Technical complex • Customized	• Standardized
Promotional characteristics	• Emphasis on personal selling	• Emphasis on mass media
Price characteristics	• Competitive building • Negotiated prices	• List price or MRP
	• List prices for standard products	
Service characteristics	• Service, timely availability • Extremely important	• Somewhat important
Channel characteristics	• More direct	• Indirect
	• Fewer intermediaries	• Multiple layer of intermediaries
Buying behaviour	• Involvement of various functional area from both the ends	• Involvement of family members
	• Purchase decisions are performance based and rational	• Purchase decisions are mostly based on psychological/social/ physiological need
	• Technical expertise	• Relatively less technical expertise is required
	• Stable interpersonal relationship	• Non personal relationship

Type of Business Customers:

Commercial Customers	Institutional Customers	Governmental Customers
Manufacturers	Schools, colleges, universities	Federal government
Construction companies	Health- care organization	· Non-defence

Service firms	Libraries	· Defence
Transportation companies	Foundations	State government
Selected professional groups	Art galleries	Local government
Wholesalers	Clinics	· Counties
Retailers		· Townships

1. Commercial Enterprises as Customers

Commercial enterprises include manufacturers, construction companies, service firms (for example, hotels), transportation companies, selected professional groups (for example, dentists), and resellers (wholesalers and retailers purchasing equipment and supplies to use in their operations).

Commercial enterprises can be divided into three categories:

Users

Users purchase industrial products or services to produce other goods or services that are, in turn, sold in the business or consumer markets.

Original Equipment Manufacturers (OEMs)

The OEM purchases industrial goods to incorporate into other products it sells in the business or ultimate consumer market.

Dealers and Distributors

Dealers and Distributors include commercial enterprises that purchase industrial goods for resale (in basically the same form) to users and OEMs. The distributors accumulate, stores, and sell a large assortment of goods to industrial users, assuming title to the goods it purchases.

A Concentration of Customers

Because manufacturing operations are so concentrated in India, the business marketer normally serves *far fewer but far larger* customers than does a consumer products marketer. In addition to concentration to size, business marketers are also concentrated geographically.

2. Government Units as Customers

Total money spent on public services by the Centre, state and local governments constitute government spending or expenditure. In other words, money spent by the government on providing goods and services such as defence, judicial and education system to its citizens is total government spending.

3. Institutions as Customers

Institutional customers comprise the third sector of the business market. They make up a sizable market – total expenditures on public elementary and secondary schools. Schools and health-care organizations make up a sizable component of the institutional market, which also includes colleges and universities, libraries, foundations, art galleries and clinics.

Business customers can also be classified as:

1. Producers:

Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Example - Procter & Gamble, General Motors, McDonald's, Dell, Delta Airlines, restaurants, dentist, doctor etc. All these businesses have to buy certain products to produce the goods and services they create.

2. Resellers:

Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Walmart and Target are two big retailers you are familiar with. Large wholesalers, brokers, and retailers have a great deal of market power.

3. Government:

Business-to-government (B2G) markets, or when companies sell to local, state, and governments, represent a major selling opportunity, even for smaller sellers. In fact, many government entities specify that their agencies must award a certain amount of business to small businesses, minority- and women-owned businesses, and businesses owned by disabled veterans.

4. **Institutions**

Institutional markets include non-profit organizations such as the Red Cross, Churches, Hospitals, Charitable organizations, Private colleges, Civic clubs, and so on. Like government and for-profit organizations, they buy a huge quantity of products and services. Holding costs down is especially important to them. The lower their costs are, the more people they can provide their services to.

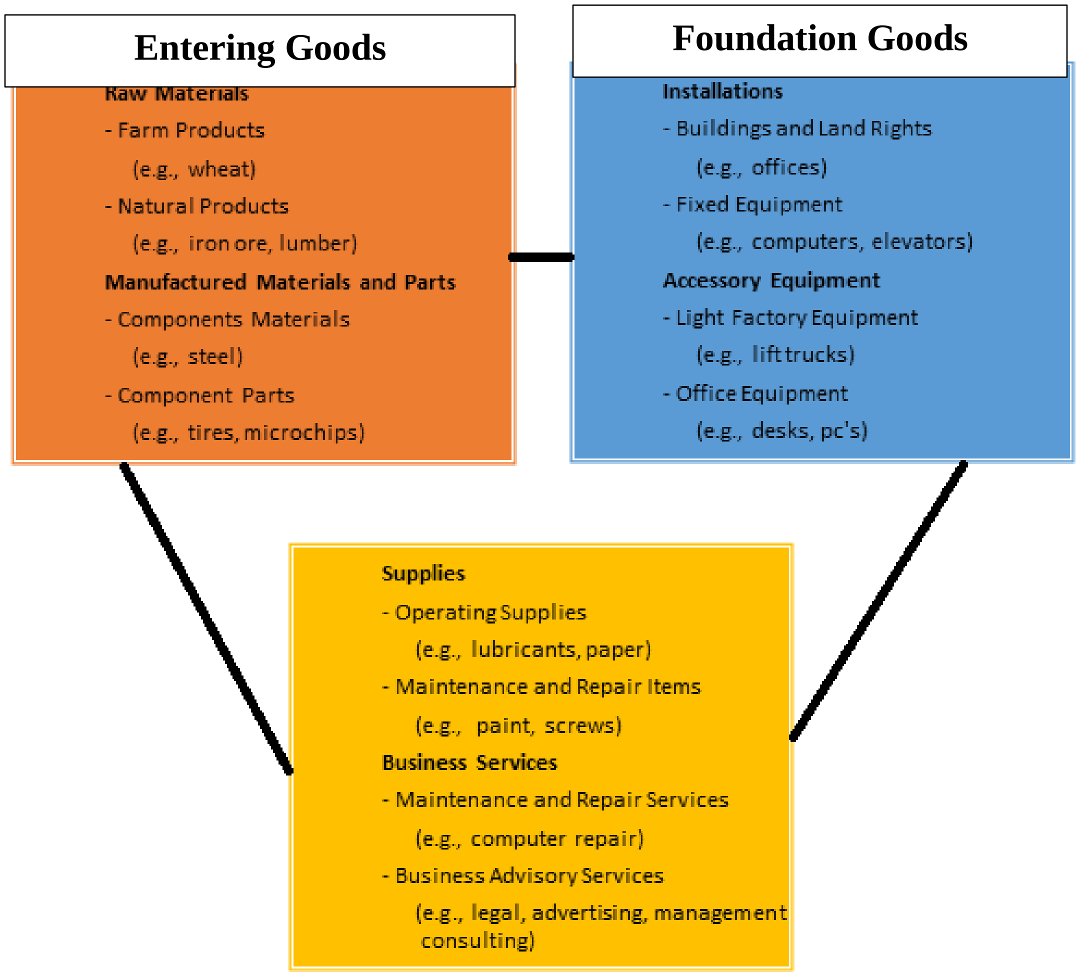
Type of Business Products: Business products are sold to other businesses, as opposed to convenience, shopping, and specialty products, which are sold to consumers.

Entering goods and services

Entering goods become part of the finished product. These categories of goods consist of raw materials and manufactured materials and parts. Their cost is an expensive item assigned to the manufacturing process.

Raw Materials

Raw materials include both farm products and natural products. Raw materials are processed only to the level required for economical handling and transport; they basically enter the buying organization's production process in their natural state.



Manufactured Materials and Parts

In contrast to raw materials, manufactured materials and parts undergo more initial processing. Component materials such as textiles or sheet steel have been processed before reaching a clothing manufacturer or automaker but must be processed further before becoming part of the finished consumer product.

B2B Products

Foundation Goods

The distinguishing characteristic of foundation goods is that they are capital items. As capital goods are used up or worn out, a portion of their original cost is assigned to the production process as a depreciation expense. Foundation goods include installation and accessory equipment.

Installations

Installations include the major long-term investment items that underlie the manufacturing process, such as buildings, land rights, and fixed equipment. Large computers and machine tools are examples of fixed equipment. The demand for installations is shaped by the economic climate (for example, favourable interest rates) but is driven by the market outlook for a firm's products.

Accessory Equipment

Accessory equipment is generally less expensive and is short-lived compared with installations, and it is not considered part of the fixed plant. This equipment can be found in plant as well as in the office. Portable drills, personal computers, and photocopying machines illustrate this category.

Facilitating Goods

Facilitating goods are the supplies and services that support organizational operations. Because these goods do not enter the production process or become part of the finished product, their costs are handled as expense items.

Supplies

Virtually every organization requires operating supplies, such as printer cartridges, paper, or business forms, and maintenance and repair items, such as paint and cleaning materials. These items generally reach a broad cross section of industrial users. In fact, they are similar to the kinds of supplies that consumers might purchase at a hardware or discount store.

Services

As the service sector in India is contributing to about a quarter of total employment, the service firms have expanded sophistically in relation to the scale and expertise that individual staff and service groups have within integrated companies. To capture the skills of the specialist and to direct attention to what they do best, many firms are shifting or "outsourcing" selected service functions to outside suppliers.

Understanding Business Market & Environment:

When determining the best way to market a product, the marketing team must analyse the marketing environment. Obviously, the marketing team must understand the market they wish to sell to, and what is the best way to market to those customers.

Business marketing

It is the practice of individuals, or organizations, including commercial businesses, governments and institutions, facilitating the sale of their products or services to other companies or organizations that in turn resell them, use them as components in products or services they offer, or use them to support their operations. It is also the task of selecting, developing and managing customer relationships for the advantage of both customer and supplier, with regard to their respective skills, resources, technologies, strategies and objectives.

Business environment

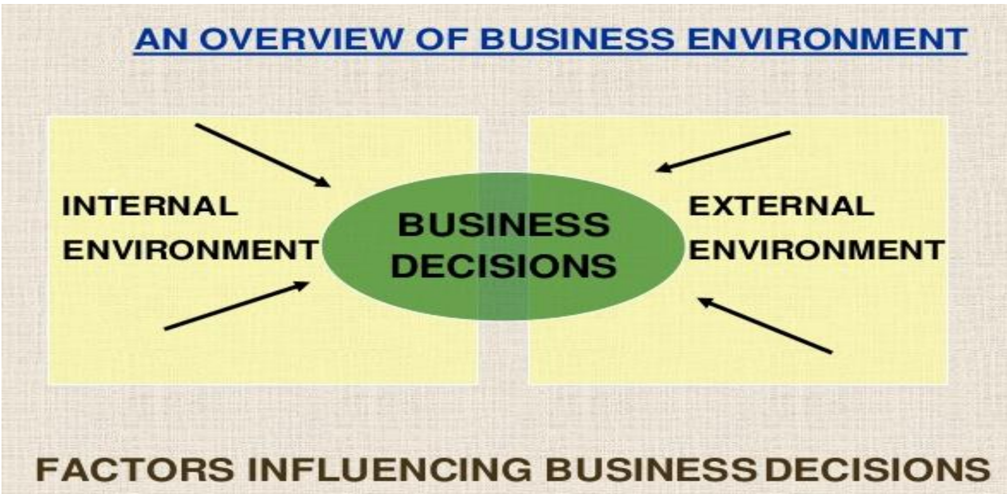
Business Environment consists of all those factors that have a bearing on the business, such as the strengths, weaknesses, internal power relationships and orientations of the organization; government policies and regulations; nature of the economy and economic conditions; sociocultural factors; demographic trends; natural factors; and, global trends and cross-border developments.

Concept of Business Environment

A business firm is an open system. It gets resources from the environment and supplies its goods and services to the environment. There are different levels of environmental forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level. These environmental forces provide opportunities or threats to the business community. Every business organization tries to grasp the available opportunities and face the threats that emerge from the business environment. Business organizations cannot change the external environment but they just react. They change their internal business components (internal environment) to grasp the external opportunities and face the external environmental threats.

Types of Environment:

On the basis of the extent of intimacy with the firm, the environmental factors may be classified in to different types or levels. As indicated below, there are, broadly, two types of environment, the internal environment, *i.e.,* factors internal to the firm and external environment, *i.e.,* factors external to the firm which have relevance to it.



The internal factors are generally regarded as **controllable factors** because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organization and functional means, such as marketing mix, to suit the environment.

The external factors, on the other hand, are, by and large, beyond the control of a company. The external or environmental factors such as the economic "factors, sociocultural factors, government and legal factors, demographic factors, geo-physical factors etc.; are, therefore, generally regarded as uncontrollable factors.

Internal Environment

The important internal factors which have a bearing on the strategy and other decisions are outlined below.

Value System

The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices. It is a widely acknowledged fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success. The value system and ethical standards are also among the factors evaluated by many companies in the selection of suppliers, distributors, collaborators etc.

Vision, Mission and Objectives

The business domain of the company, priorities, direction of development, business philosophy, business policy etc., is guided by the vision mission and objectives of the company.

Management Structure and Nature

The organizational structure, the composition of the Board of Directors, extent of professionalization of management etc., are important factors influencing business decisions. Some management structures and styles delay decision making while some others facilitate quick decision making.

Internal Power Relationship

Factors like the amount of support the top management enjoys from different levels of employees, shareholders and Board of Directors have important influence on the decisions and their implementation. The relationship between the members of Board of Directors and between the chief executive and the Board are also critical factors.

Human Resources

The characteristics of the human resources like skill, quality, morale, commitment, attitude etc., could contribute to the strength -and weakness, of an organization. Some organizations find it difficult to carry out restructuring or modernization because of resistance by employees whereas they are smoothly done in some others.

Company Image and Brand Equity

The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new, products etc. Brand equity is also relevant in several of these cases.

Miscellaneous Factors

There are a number of other internal factors which contribute to the business success/failures or influence the decision-making. They include the following.

1. **Physical Assets and Facilities** like the production capacity, technology and efficiency of the productive apparatus, distribution logistics etc., are among the factors which influence the competitiveness of a firm.
2. **R & D and Technological Capabilities**, among other things, determine a company's ability to innovate and compete.
3. **Marketing Resources** like the organization for marketing, quality of the marketing men, brand equity and distribution network have direct bearing on marketing efficiency. They are important also for brand extension, new product introduction etc.
4. **Financial Factors** like financial policies, financial position and capital structure are also important internal environment affecting business performances, strategies and decisions.

External Environment

As stated earlier, the external business environment consists of a micro environment and a macro environment.

Micro Environment

The micro environment consists of the actors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the publics." The macro environment consists larger societal forces that affect all the actors in the company's micro environment namely, the demographic, economic, natural, technical, political and cultural forces."

Suppliers

An important force, in the micro environment of a company is the suppliers, *i.e.*, those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious. Uncertainty regarding the supply or other supply constraints often compels companies to maintain high inventories causing cost increases.

Customers

As it is often exhorted, the major task of a business is to create and sustain customers. A business exists only because, of its customers. Monitoring the customer sensitivity is, therefore, a prerequisite for the business success. A company may have different categories of consumers like individuals, households, industries and other commercial establishments, and government and other institutions.

Competitors

A firm's competitors include not only the other firms which market the same or similar products but also all those who compete for thee discretionary income of the consumers.

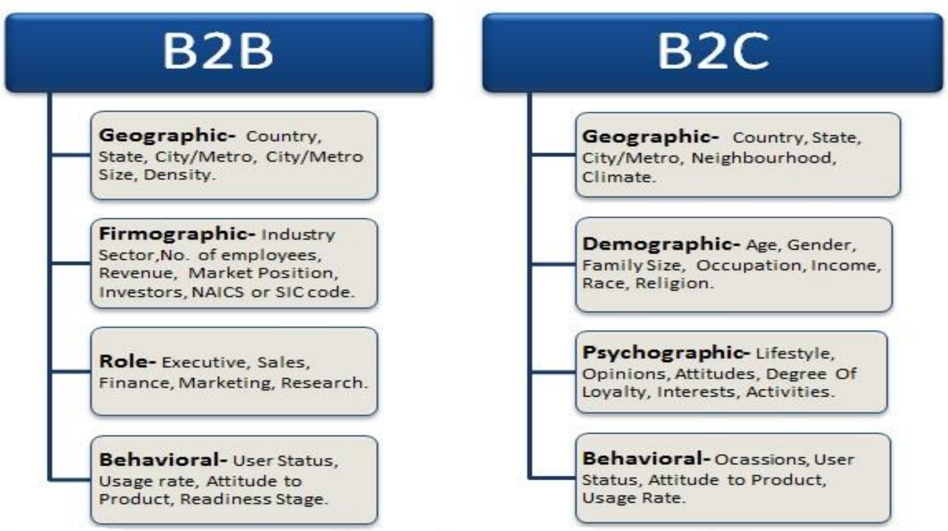
The competition among such alternatives which satisfy a particular category of desire is called **generic competition**. If the consumer decides to go in for a T.V., the next question is which form of the T.V black and white .or Colour with remote control or without it etc. In other words, there is a **product form competition**. Finally, the consumer encounters the **brand competition** *i.e.* the competition between the different brands of the same product form.

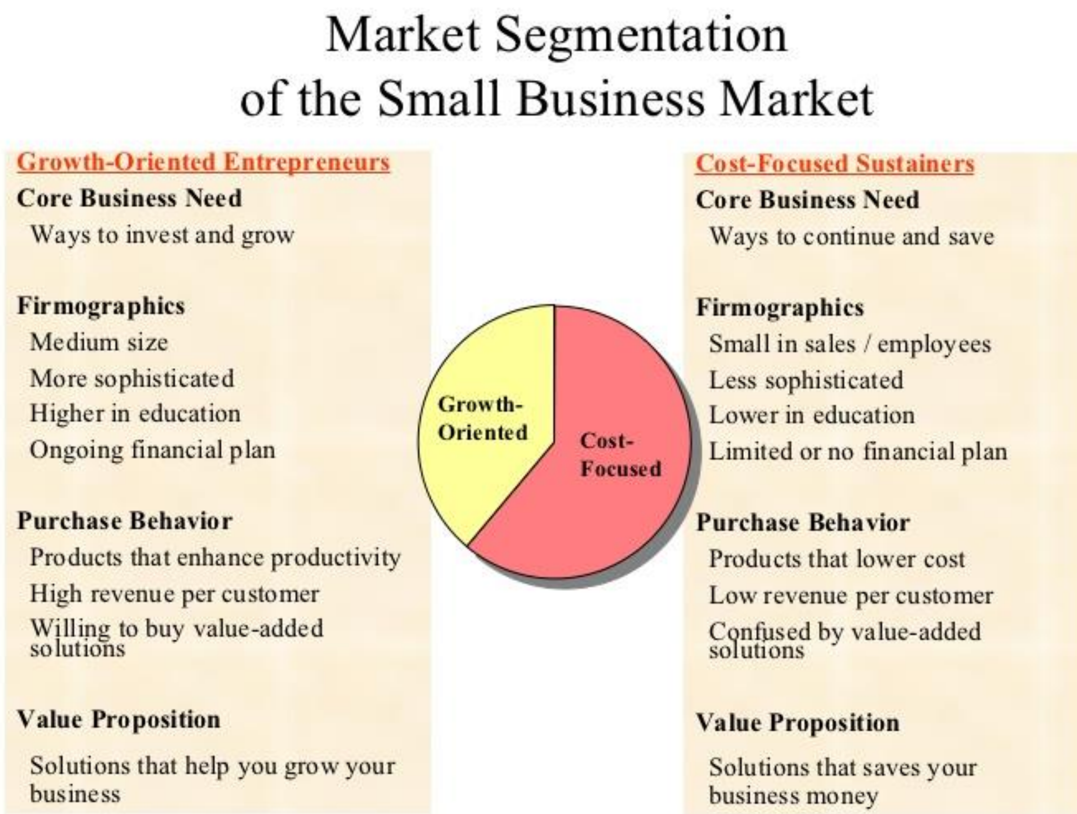
Module-II

Segmentation of Business Market

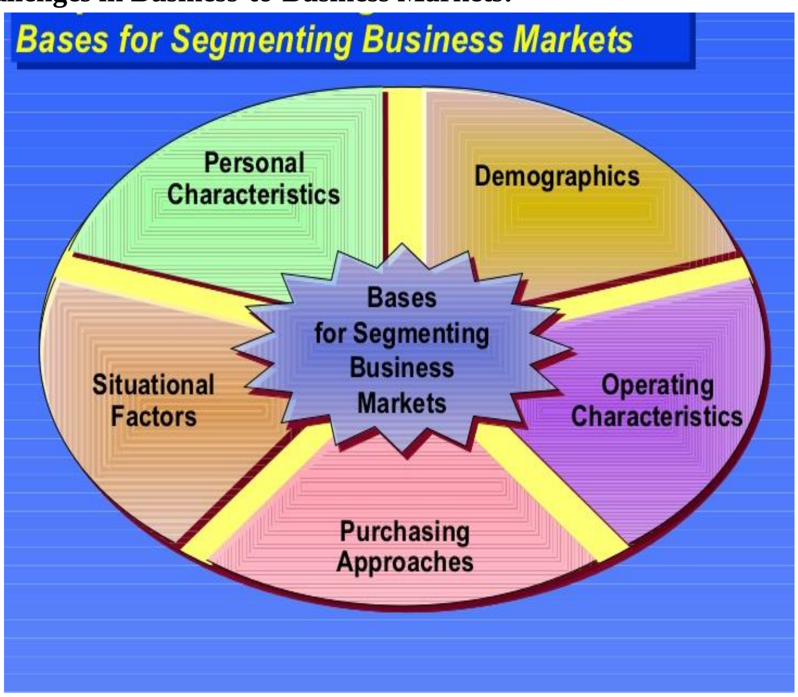
Introduction

A market segment represents "a group of present or potential customers with some common characteristics which is relevant in explaining (and predicting) their response to a supplier's marketing stimuli." Effective segmentation of markets is the first step in crafting a marketing strategy because the characteristics and needs of each segment will define the direction and focus of the marketing program. Segmentation that is done well provides the necessary information for understanding what elements of the marketing mix are going to be critical in satisfying the target customers in those segments.





Segmentation Challenges in Business-to-Business Markets:



Business-to-business markets are characterised in a number of ways that makes them very different to their consumer cousins. Below we summarise the main differences between consumer and business-to-business markets, and set out the implications for market segmentation:

1) B2B markets have a more complex decision-making unit: In most households, even the most complex and expensive of purchases are confined to the small family unit, while the purchase of items such as food, clothes and cigarettes usually involves just one person. Other than low-value, low-risk items such as paperclips, the decision-making unit in businesses is far more complicated. The purchase of a piece of plant equipment may involve technical experts, purchasing experts, board members, production managers and health and safety experts, each of these participants having their own set of (not always evident) priorities.

2) B2B buyers are more "rational": In business-to-business markets it is critical to identify the drivers of customer needs. These often boil down to relatively simple identifiers such as company size, volume purchased or job function. These identifiers often enable needs and therefore segments to be quite accurately predicted.

3) B2B products are often more complex: Just as the decision-making unit is often complex in business-to-business markets, so too are b2b products themselves. Even complex consumer purchases such as cars and stereos tend to be chosen on the basis of fairly simple criteria. Conversely, even the simplest of b2b products might have to be integrated into a larger system, making the involvement of a qualified expert necessary. Whereas consumer products are usually standardized, b2b purchases are frequently tailored.

4) B2B target audiences are smaller than consumer target audiences: Almost all business-to-business markets exhibit a customer distribution that confirms the Pareto Principle or 80:20 rule. A small number of customers dominate the sales ledger.

5) Personal relationships are more important in b2b markets: A small customer base that buys regularly from the business-to-business supplier is relatively easy to talk to. Sales and technical representatives visit the customers. People are on first-name terms. Personal relationships and trust develop. It is not unusual for a business-to-business supplier to have customers that have been loyal and committed for many years.

6) B2B buyers are longer-term buyers: Whilst consumers do buy items such as houses and cars which are long-term purchases, these incidences are relatively rare. Long-term purchases – or at least purchases which are expected to be repeated over a long period of time – are more common in business-to-business markets, where capital machinery, components and continually used consumables are prevalent. In addition, the long-term products and services required by businesses are more likely to require service back-up from the supplier than is the case in consumer markets.

7) B2B markets drive innovation less than consumer markets: B2B companies that innovate usually do so as a response to an innovation that has happened further upstream. In contrast with FMCG companies, they have the comparative luxury of responding to trends rather than having to predict or even drive them.

8) B2B markets have fewer behavioural and needs-based segments: The small number of segments typical to b2b markets is in itself a key distinguishing factor of business-to-business markets.

Segmentation Process:

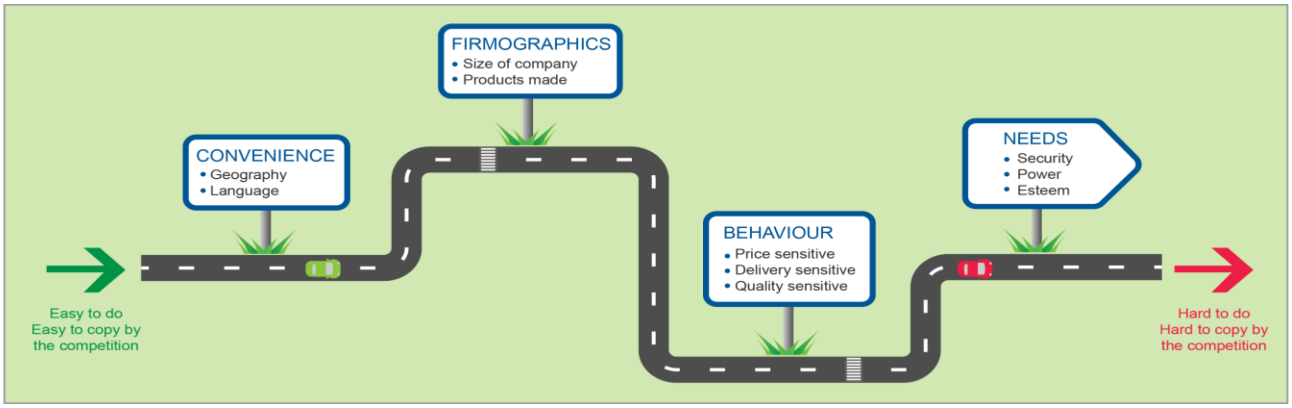
The benefits of B2B segmentation are not hard to grasp. The challenge is arriving at the most effective groupings.

A common approach in business-to-business markets is to apply a market segmentation based on company size. The consumption levels of business-to-business customers are so widely different that this often makes sense due to large companies usually thinking and acting differently to small ones. A further sophistication may be to classify customers into those who are identified as strategic to the future of the business, those who are important and therefore key and those who are smaller and can be considered more of a transactional typology.

These "demographic" segmentations, sometimes referred to as "firmographic" in business-to-business markets, are perfectly reasonable and may suffice. However, they do not offer that sustainable competitive advantage that competitors cannot copy. A more challenging segmentation is one based on behaviour or needs. Certainly large companies may be of key or strategic value to a business but some want a low cost offer stripped bare of all services while others are demanding in every way. If both are treated the same, one or both will feel unfulfilled in some way and be vulnerable to the charms of the competition.

It is not easy to jump straight into a fully-fledged needs-based segmentation. Most companies are starting with some history of involvement in segmentation, even if it is only a north/south split of its sales force. Companies move down the road of segmentation learning all the way.

The Road To A Needs-based Segmentation



There may be problems in developing a needs-based segmentation but this is at least an aspiration to drive towards. The question is "how?"

The starting point of any business-to-business segmentation is a good database. A well-maintained database is high on the list in any audit of marketing excellence in a business-to-business company. The database should, as a minimum, contain the obvious details of correct address and telephone number together with a purchase history. Ideally it should also contain contact names of people involved in the decision-making unit, though this does present problems of keeping it up to date.

Management is frequently blissfully unaware of the parlous state of its databases as it is rarely involved in inputting and maintaining data. Sometimes the best database in the company is the Christmas card list held close to the chest of every sales person.

Using Statistics for Segmentation

The classification data on questionnaires provides demographic data while questions in the body of the interview determine aspects of behaviour. Cross tabulations of data on these criteria allow us to see the different responses amongst groups of respondents. This is market segmentation at its simplest level and every researcher uses the computer tabulations of findings to establish groups of respondents with marked differences.

Factor Analysis:

Using a technique known as factor analysis, statisticians can work out which groups of attributes best fit together. Looking through the different statements or attributes that make up these groupings it is usually possible to see common themes such as people who want low prices with few extras, people who want lots of services or add-ons and are prepared to pay for them, people who are concerned about environmental issues and so on. Factor analysis reduces the large number of attributes to a smaller but representative sub-set. These sub-sets are then given labels such as “price fighters”, “service seekers” and any other such terms that help the marketing team know exactly who they are addressing.

Cluster Analysis:

The groupings of needs that have been worked out by factor analysis are now run through further computations using a technique known as cluster analysis. These factors are presented to the cluster analysis whose algorithms rearrange the data into the partitions that have been specified and so determine how neatly the population fits into the different groupings.

Organizational Buying and Buying Behaviour:

Organization buying behaviour is defined as the rational decision-making process in which organization buys goods and services when they have need of any goods or service for their organization. The purchased products and services get identified, evaluated, and chosen among alternative brands and suppliers. Organizational buying is similar to the consumer buyer behaviour without any major differences. Organizations buy the products and services for the betterment of organizational objectives such as manufacture and deliver goods and services to members, customers or the community.

Nature/ Characteristics of Organizational Buying Behaviour

- **Every organization is unique** – As different organization have different organizational structure, culture, values, objectives and resources. Therefore, they also have a unique set of needs, demands and exhibit unique buying behaviour.
- **There is long time lag between efforts and results** – In the process of individual buying, the time taken between a purchase decision and sales transaction is shorter than industrial buying. This is due to the extra formalities and procedures that are to be followed in organizational buying process. For example, asking quotations, evaluating tenders, preparing bulk orders etc.
- **It is a rational as well as emotional activity** – Due to presence of human beings in the purchase process, it rise to emotional element involved in buying. As industrial buyer may select the quantity and quality of a product on the basis of specified organization norms but may choose a dealer on the basis of his personal or political affiliation or past experience with the dealer.
- **It is a formal activity** – Organization buying involves a formal contract between the buyer and seller. It is an formal activity which requires the buyer to follow rules and procedures laid down by the organization regarding the type, quality, quantity, terms of payment, delivery time etc. while making a purchase decision.
- **It is a multi-person activity** – Buying decisions in an organization are generally taken by a team of qualified personnel also referred to as buying centre where each individual plays different buying roles.

Organizational buying behaviour is a process, not an isolated act or event. Tracing the history of a procurement decision uncovers critical decision points and evolving information requirements. In fact, organizational buying involves several stages, each of which yields a decision.

Organisational Buying Stages

Stage	Description
1. Problem Recognition	Managers at P&G need new high-speed packaging equipment to support a new product launch
2. General Description of Need	Production managers’ work with a purchasing manager to determine the characteristics needed in the new packaging system.

3. Product Specifications	An experienced production manager assists a purchasing manager in developing a detailed and precise description of the needed equipment.
4. Supplier Search	After conferring with production managers, a purchasing manager identifies a set of alternative suppliers that could satisfy P&G's requirement.
5. Acquisition and Analysis of Proposals	Alternative proposals are evaluated by a purchasing manager and a number of members of the production department.
6. Supplier Selection	Negotiations with the two finalists are conducted, and a supplier is chosen.
7. Selection of Order Routine	A delivery date is established for the production equipment.
8. Performance Review	After equipment is installed, purchasing and production managers evaluate the performance of the equipment and the service support provided by the supplier.

Problem Solving

The first stage of the business buying process is to identify the need of the organization which will be met by purchasing any goods or services. Problem recognition can result from internal or external stimuli. Internally, the company may take a decision to launch a new product that requires new production equipment and materials. Or, a machine may break down and need another new part. Externally, the buyer gets some new ideas at a trade show, see an ad, or receive a call from a seller who offers best products at low price.

General Need Description

After the need is recognized, the buyers prepare a general need description which reports both characteristics and quantity needed and item for the organization. For standard items, this process presents very few problems but for complex problems the buyer needs to work with the other engineers, users, consultants in order to define the item.

Product Specification

In this stage, the buying organization decides and specifies the technical product features for the needed item. Product value analysis is the approach that helps to reduce the cost in which the components are studied. After studying it carefully they can be redesigned, standardized or made by fewer cost methods of production. The team will decide best product features and specifies them accordingly.

Supplier Search

In this stage, the buyer conducts supplier search to find the best sellers. The buyer can assemble a list of qualified suppliers by analysing trade directories, doing computer searches or contacting other companies for recommendation letters.

Proposal Solicitation

The stage of the business buying in which the buyer ask qualified suppliers to submit proposals is called proposal solicitation. In the next stage suppliers send only a catalogues or a salespersons. However, when the item is complex or expensive, the buyer asks for the detailed written proposals or formal presentations for each potential supplier.

Supplier Selection

In this stage, the buyer reviews proposals and choose a supplier or suppliers. During supplier selection, the buying centre often will prepare up a list of the desired supplier trait and their relative importance.

Such trait includes product and service quality, reputation, on-time delivery, ethical corporate behaviour, honest communication and competitive prices.

Order- Routine Specification

This is the stage of buying process in which the buyer choose the final supplier by listing various things like technical specifications, quantity needed, expected time of delivery, return policies, and warranties.

Performance Review

The stage of buying process in which the buyer analyse the supplier's performance on the basis of different criteria and decides to continue, modify or drop the arrangement. The seller's job is to observe and examine the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

The purchasing process begins when someone in the organization recognizes a problem that can be solved or an opportunity that can be captured by acquiring specific product. Problem recognition can be triggered by internal or external forces.

The Search Process

Once the organization has defined the product that meets its requirements, attention turns to this question: Which of the many possible suppliers are promising candidates? The organization invests more time and energy in the supplier search when the proposed product has a strong bearing on organizational performance. When the information needs of the buying organization are low, stage 4 and 5 occur simultaneously, especially for standardized items. In this case, a purchasing manager may merely check a catalogue or secure an update price from the internet. Stage 5 emerges as a distinct category only when the information needs of the organization are high. Here, the process of acquiring and analysing proposals may involve purchasing managers, engineers, users, and other organizational members.

Supplier Selection and Performance Review

After being selected as a chosen supplier (stage 6) and agreeing to purchasing guidelines (stage 7), such as required quantities and expected time of delivery, a marketer faces further tests. A performance review is the final stage in the purchasing process. The performance review may lead the purchasing manager to continue, modify, or cancel the agreement. A review critical of the chosen supplier and supportive of rejected alternatives can lead members of the decision-making unit to re-examine their position. If the product fails to meet the needs of the using department, decision makers may give further consideration to vendors screened earlier in the procurement process. To keep a new customer, the marketer must ensure that the buying organization’s need have been completely satisfied. Failure to follow through at this critical stage leaves the marketer vulnerable.

Buying Situation

New Task	A situation requiring the purchase of a product for the first time
Modified Rebuy	A situation where the purchaser wants some changes in the original good or service
Straight Rebuy	A situation in which the purchaser reorders the same goods or services without looking for new information or investigating other suppliers

Therefore, attention must centre on buying situations rather than on products. Three types of buying situations have been delineated:

1. New Task – In the new-task buying situation, organization decision makers perceive the problem or need as totally different from previous experience; therefore, they need a significant amount of information to explore alternative ways of solving the problem and searching for alternative suppliers.

When confronting a new-task buying situation, organizational buyers operate in a stage of decision making referred to as extensive problem solving. The buying influentials and decision makers lack well-defined criteria for comparing alternative products and suppliers, but they also lack strong predispositions toward a particular solution. In the consumer market, this is the same type of problem solving an individual or household might follow when buying a first home.

2. Straight Rebuy – When there is a continuing or recurring requirement, buyers have substantial experience in dealing with the need and require little or no new information. Evaluation of new alternative solutions is unnecessary and unlikely to yield appreciable improvements. Thus, a *straight rebuy* approach is appropriate.

Routine problem solving is the decision process organizational buyers employ in the straight rebuy. Organizational buyers apply well-developed choice criteria to the purchase decision. The criteria have been refined over time as the buyers have developed predisposition toward the offerings of one or a few carefully screened suppliers.

3. Modified Rebuy – In the *modified rebuy* situation, organizational decision makers feel they can derive significant benefits by re-evaluating alternatives. The buyers have experience in satisfying the continuing or recurring requirement, but they believe it is worthwhile to seek additional information and perhaps to consider alternative solutions. Several factors may trigger such a reassessment. Internal forces include the search for quality improvements or cost reductions. A marketer offering cost, quality, or service improvements can be an external precipitating force. The modified rebuy situation is most likely to occur when the firm is displeased with the performance of present suppliers (for example, poor delivery service).

Limited problem solving best describes the decision-making process for the modified rebuy. Decision makers have well-defined criteria but are uncertain about which suppliers can best fit their needs. In the consumer market, college students buying their second computer might follow a limited problem-solving approach.

The Buying Centre

The concept of the buying centre provides rich insights into the role of group forces in organizational buying behaviour. The buying centre consists of individuals who participate in the purchasing decision and share the goals and risk arising from the decision. The size of the buying centre varies, but an average buying centre includes more than four person per purchase; the number of people involved in all stages of one purchase may be as many as 20.

The composition of the buying centre may change from one purchasing situation to another and is not prescribed by the organizational chart. A buying group evolves during the purchasing process in response to the information requirements of the specific situation. Because organizational buying is a process rather than an isolated act, different individuals are important to the process at different times. A design engineer may exert significant influence early in the process when product specifications are being established; others may assume a more dominant role in later phases. A salesperson must define the buying situation and the information requirements from the organization’s perspective in order to anticipate the size and composition of the buying centre. Again, the composition of the buying centre evolves during the purchasing process, differs from firm to firm, and varies from one purchasing situation to another.

Isolating the Buying Situation

First steps in defining the buying centre is the buying situation and determining whether the firm is in the early or later stages of the procurement decision-making process. The product, intensive-care monitoring systems, is complex and costly. Buying centre members are drawn from five functional areas, each participating to varying degrees in the process. A marketer who concentrated exclusively on the purchasing function would be overlooking key buying influentials.

The Involvement of Buying Centre Participants at Different Stages of the Procurement Process				
Stages of Procurement Process for a Medical Supplier				
Buying Centre Participants	Identification of Need	Establishment of Objective	Identification and Evaluation of Buying Alternatives	Selection of Suppliers
Physicians	High	High	High	High
Nursing	Low	High	High	Low
Administration	Moderate	Moderate	Moderate	High
Engineering	Low	Moderate	Moderate	Low
Purchasing	Low	Low	Low	Moderate

Predicting Composition

A marketer can also predict the composition of the buying centre by projecting the effect of the industrial product on various functional areas in the organization. If the procurement decision will affect the marketability of a firm's product (for example, product design, and price) then the marketing department has to be active in the process. Engineering will be influential in decision about new capital equipment, materials and, and components; setting specification; defining product performance requirements; and qualifying potential vendors. Manufacturing executives will be included for procurement decisions that affect the production mechanism (for example, materials or parts used in production). When procurement decision involve a substantial economic commitment or impinge on strategic or policy matters, top management will have considerable influence.

Roles in the Buying Centre

Members of the buying centre assume different roles throughout the procurement process. Frederick Webster Jr. and Yoram Wind have given the following levels to each of these roles: users, gatekeepers, influencers, deciders, and buyers.

Users – are the personnel who use the product in question. Users may have anywhere from inconsequential to extremely important influence on the purchase decision. In some cases, the users initiate the purchase action by requesting the product. They may even develop the product specifications.

Gatekeepers – control information to be reviewed by other members of the buying centre. They may do so by disseminating printed information, such as advertisements, or by controlling which salesperson speaks to which individuals in the buying centre. To illustrate, the purchasing agent might perform this screening role by opening the gate to the buying centre for some sales personnel and closing it to others.

Influencers – affect the purchasing decision by supplying information for the evaluation of alternatives or by setting buying specifications. Typically, those in technical departments, such as engineering, quality control, and R&D, have significant influence on the purchase decision. Sometimes, outside individuals can assume this role. For high-tech purchases, technical consultants often assume an influential role in the decision process and broaden the set of alternatives being considered.
Deciders – actually make the buying decision, whether or not they have the formal authority to do so. The identity of the decider is the most difficult role to determine: Buyers may have formal authority to buy, but the president of the firm may actually make the decision. A decider could be a design engineer who develops a set of specifications that only one vendor can meet.
Buyer – has formal authority to select a supplier and implement all procedures connected with securing the product. More powerful members of the organization often usurp the power of the buyer. The buyer's role is often assumed by the purchasing agent, who executes the administrative functions associated with a purchase order.

Module-III

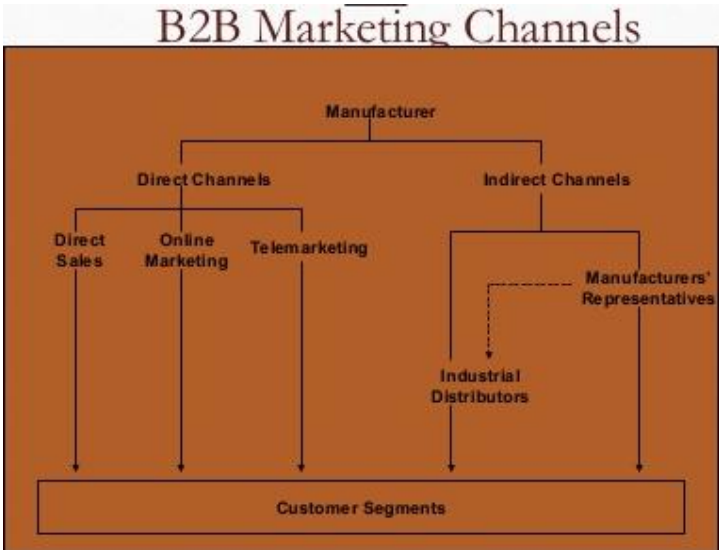
Types of Business Channel Intermediaries
Distribution channel:

- The link between the manufacturer and the customer is called the Channel of Distribution.
- The channel accomplishes all the tasks necessary to get the product/service to market.
- Tasks can be performed by the manufacturer or be delegated throughout the channel.

Distribution channel is a set of interdependent organizations that ease the transfer of ownership as products move from producer to business user or consumer.
The distribution of products involves two main elements:

1. The management of the tangible or physical aspects of moving a product from the producer to the end user (part of supply chain management).
2. The management of the intangible aspects or issues of ownership, control and flows of communication between the parties responsible for making the offering accessible to the customer (channel management).

The Business Market Channel
The link between manufacturers and customers is the channel of distribution. The channel accomplishes the entire task necessary to affect a sale and deliver products to the customer. These tasks include making contact with potential buyers, negotiating, contracting, transferring title, communicating, arranging financing, servicing the product, and providing local inventory, transportation, and storage. These tasks may be performed entirely by the manufacturer or entirely by intermediaries, or they may be shared between them. The customer may even undertake some of these functions; for example, customers granted certain discounts might agree to accept larger inventories and the associated storage costs.



Some channels are direct – the manufacturer must perform all the marketing functions needed to make and deliver products. The manufacturer's direct sales force and online marketing channels are examples. Others are indirect; that is, some type of intermediary (such as a distributor or dealer) sells or handles the product.

Direct Channels

Direct distribution, common in business marketing, is a channel strategy that does not use intermediaries. The manufacturer's own sales force deals directly with the customer, and the manufacturer has full responsibility for performing all the necessary channel tasks. Direct distribution is often required in business marketing because of the nature of the selling situation or the concentrated nature of industry demand. The direct sales approach is feasible when:

1. The customers are large and well defined.
2. The customers insist on direct sales
3. Sales involve extensive negotiations with upper management
4. Selling has to be controlled to ensure that the total product package is properly implemented and to guarantee a quick response to market conditions.

Indirect Channels

Indirect distribution uses at least one type of intermediary, if not more. Business marketing channels typically include fewer types of intermediaries than do consumer goods channels. Manufacturer's representatives and industrial distributors account for most of the transactions handled in this way. Indirect distribution is generally found where:

1. Marketers are fragmented and widely dispersed
2. Low transaction amounts prevail
3. Buyers typically purchase a number of items, often different brands, in one transaction.

Integrated Multichannel Models

Leading business marketing firms use multiple sales channels to serve customers in a particular market. The goal of multichannel model is to coordinate the activities of many channels, such as field sales representatives, channel partners, call centres, and the Web, in order to enhance the total customer experience and profitability. Consider a typical sales cycle that includes the following tasks: lead generation, lead qualification, negotiation and sales closure, fulfilment, and customer care and support.

Lead Generation	Triggered by a sales call, a customer's response to direct mail, or by a request for information through a website, an initial contact with a prospect is made.
Lead Qualification	Potential customer is screened: the prospect's need for the product or service, buying interest, funding, and time frame for making the purchase.
Bid and Proposal	Preparation of bid and proposal to meet customer's requirements (a complex task for large technical projects).
Negotiation and Sales Closure	The negotiation of prices, terms, and conditions, followed by agreement on a binding contract.
Fulfilment	For standardized product or service, delivery of offering to customer. Configuration, customization, and installation for more complex sales
Customer Care and Support	Post-sale problem resolution, customer guidance, and ongoing contact to insure customer retention, loyalty, and growth.

In a multichannel system, different channels can perform different tasks within a single sales transaction with a customer. For example, business marketing firms might use a call centre and direct mail to generate leads, field sales representatives to close sales, business partners (for example, industrial distributors) to provide fulfilment (that is, deliver or install product), and a website to provide post-sale support.

Channel Functions:

Functions	**Purpose**
Exchanges of products, services, information, technical, financial, social matters.	• Extending relationship, trust, commitment between all parties – Reducing the uncertainty • Better positioned to concentrate on other tasks
Reducing complexity from numbers of transactions, frequency of contact by using intermediaries	• Producers focus on their core activities • End user customers can obtained improved individual support and service
Increasing value and competitive advantage	• Producers can reduce the risk of purchase uncertainty • Intermediaries through their services create the competitive advantage

- **Sorting -** Middlemen obtain the supplies of goods from various suppliers and sort them out into similar groups on the basis of size, quality etc.
- **Accumulation -** In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.
- **Allocation -** It involves packing of the sorted goods into small marketable lots like 1Kg, 500 grams, 250 grams etc.

- **Assorting -** Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them.
- **Product Promotion -** Sales promotional activities are mostly performed by the producer but sometimes middlemen also participate in these activities like special displays, discounts etc.
- **Negotiation -** Middlemen negotiate the price, quality, guarantee and other related matters about a product with the producer as well as customer.
- **Risk Taking -** Middlemen have to bear the risk of distribution like risk from damage or spoilage of goods etc. when the goods are transported from one place to another or when they are stored in the god-owns.
- **Hold Stock -** Distribution channel members hold stock of a company's products in their own facilities. A wholesaler, for example, can support a network of local retailers by holding stock, delivering goods to stores or offering retailers a local collection service. This helps reduce a company's own stockholding costs and ensures products are readily available close to the point of sale. By taking responsibility for delivery to local customers, channel members also reduce a company's logistics costs.
- **Provide Customer Support -** Distributors of industrial or business-to-business products may provide technical support and maintenance services to a company's customers. By handling installation, training, scheduled servicing and maintenance to agreed-upon quality standards through distributors, companies can ensure customers obtain essential support without stretching their own service resources.
- **Increase Market Coverage -** Setting up a network of wholesalers and retailers enables companies to reach territories they could not cover with their own sales resources. This provides companies with a low-cost method of expanding geographically without increasing its internal sales resources. Members of the distribution channel with their own customer base offer companies the opportunity to gain new business without incurring sales and prospecting costs.
- **Support Smaller Customers -** Companies can use their distribution channels to deal with their smaller customers, leaving their own sales teams free to focus on dealing with large accounts. Distributors and retailers may deal with small customers in a particular geographic region or sell to a specific sector of the market. Companies must decide which customers their channel partners can service as the retailer or distributor then controls the relationship with the customer.
- **Improve Customer Convenience -** By developing an online channel, companies can improve convenience for customers. A website is open for business around the clock, so customers can order at any time without having to search for a local stockist. An online channel also enables companies to sell their goods in territories where they do not have direct or indirect channel coverage.

Channel Functions Aligned With Customer Needs

Channel Function	Customer Needs
1. Product Information	1. Customers seek more information for new and/or technically complex products and those that are characterized by a rapidly changing market environment.
2. Product Customization	2. Some products must be technically modified or need to be adapted to meet the customer's unique requirements.
3. Product Quality Assurance	3. Because of its importance to the customer's operations, product integrity and reliability might be given special emphasis by customers.
4. Lot Size	

5. Assortment 6. Availability 7. After-Sales Service 8. Logistics	4. For products that have a high unit value or those that are used extensively, the purchase represents a sizable dollar outlay and a significant financial decision for the customers. 5. A customer may require a broad range of products, including complementary items, and assign special value to one-stop shopping. 6. Some customer environments require the channel to manage demand uncertainty and support a high level of product availability. 7. Customers require a range of services from installation and repair to maintenance and warranty. 8. A customer organization may require special transportation and storage services to support its operations and strategy

Business Market Channel Design:

Channel design is a dynamic process of developing new channels where none existed and modifying existing channels. The business marketer usually deals with modification of existing channels, although new products and customer segments may require entirely new channels. Regardless of whether the manager is dealing with a new channel or modifying an existing one, channel design is an active rather than a passive task. Effective distribution channel do not simply evolve; rather, they are developed by management, which takes action on the basis of a well-conceived plan that reflects overall marketing goals.

Channel design is best conceptualized as a series of stages that the business marketing manager must complete to be sure that all important channel dimensions have been evaluated. The result of the process is to specify the structure that provides the highest probability of achieving the firm's objective.

Step 1	**End-User Focus: Define Customer Segments**
Step 2	**Identify and Prioritize Customer's Channel Requirements by Segments**
Step 3	**Assess the Firm's Capabilities to Meet Customer's Requirements**
Step 4	**Benchmark Channel Offerings of Key Competitors**
Step 5	**Create Channel Solutions to Customer's Latent Needs**
Step 6	**Evaluate and Select Channel Options**

Step 1: Define Customer Segments

The primary goal of the distribution channel is to satisfy end-user needs, so the channel design process should begin there. Step 1 is about defining target market segments and isolating the customer buying and usage behaviour in each segment (what they buy, how they buy, and how they put their purchases to use).

Some business marketers err by considering their channel partners as "customers and rarely looking beyond them". To inform the channel design process, however, the marketing strategist should centre on the importance of the product from the customer's perspective.

Step 2: Identify Customers' Channel Needs by Segment

Identifying and prioritizing the channel function requirements for customers in each market segment is next. This information should be elicited directly from a sample of present or potential customers from each segment. For example, large customers for information-technology products might rank product customization, product quality assurance, and after sales service as there top three needs, whereas small customers may prioritize product information, assortment, and availability as their most important needs. The business marketing manager should also probe customers on their issues that might provide strategy insights. For instance, how sensitive are customers to a two-hour versus six-hour service response time, or how much value do they perceive in a three-year versus one-year warranty.

Step 3: Assess the Firm's Channel Capabilities

Once customer requirements have been isolated and prioritized, an assessment is made of the strengths and weaknesses of the firm's channel. The central focus is on identifying the gaps between what customers in a segment desire and what the channel is now providing. Customers base their choice of a channel not on a single element, but on a complete bundle of benefits (that is, channel functions). To that end, the business-to-business firm should identify particular channel functions, like aftersales support or availability where action could be taken to enhance the customer value proposition.

Step 4: Benchmark to Competitors

What go-to-market strategies are key competitors using? In designing a channel, cost considerations prevent the business marketer from closing all the gaps on channel capabilities that may appear. However, a clear direction for strategy is revealed by understanding the channel offerings of competitors. For example, an aggressive competitor that goes to market with its own team of account managers and dedicated service specialists might demonstrate special strength in serving large corporate customers. However, countless opportunities exist for smaller rivals to counter this strategy by developing special channel offerings tailored to small and medium-sized customers (for example, local markets succeed in retailing their market leadership position in small towns despite the aggressive challenge from malls and shopping marts.)

Step 5: Create Channel Solutions for Customers' Latent Needs

Sometimes, a review of competitor offerings can alert the marketer to opportunities for new offerings that may have special appeal to customers. "At other times, customers' needs may be latent and unarticulated, and it is the channel steward's responsibility to tap into and surface those requirements." Based on such an assessment, a provider for information-technology equipment created an entirely new channel option for the small and medium-sized customer segment. Rather than selling equipment, this new channel takes responsibility for installing, upgrading, and maintaining the equipment at the customers' locations for an ongoing service fee.

Step 6: Evaluate and Select Channel Options

Channel decisions must ultimately consider the cost-benefit trade-offs and the estimated profitability that each of the viable channel options presents. Some of the channel gaps that are uncovered in this assessment can be closed by the independent actions and investments of the business-to-business firm (for example, adding to the service support staff or the sales force). For the most part, however, the greatest progress will come from the channel partners (for example, distributors or representatives) working together and discussing how channel capabilities can be aligned to customer needs. "The idea is to enhance the value delivered to customers through collaborative action among channel partners. If the partners can agree on how to pull it off and, indeed, accomplish their redefined tasks," they will squarely respond to customer needs and advance the performance of the channel. One important implication of the framework is that the design of the channel must change as customer and competitor behaviour changes. Rather than a static structure, channel management is an ongoing process involving continuous adjustments and evolution.

When to Make a Channel Design Decision

- Developing a new product or product line

- Aiming an existing product at a new market
- Making a major change in some other component of the marketing mix
- Establishing a new firm
- Adapting to changing intermediary policies that may inhibit attainment of distribution objectives
- Dealing with changes in availability of particular kinds of intermediaries
- Opening up new geographic marketing areas
- Facing the occurrence of major environmental changes
- Meeting the challenge of conflict or other behavioural problems
- Reviewing and evaluating

Design Criteria

Criteria for selecting and evaluating intermediaries

Both the firm and its distributors should recognize their obligations before entering into an agreement. To improve the chances of success, the supplier should ask several questions of potential distributors.

1. What is distributor's credit and financial condition?
2. What is the distributor's selling capability?
3. Will the distributor forgo competitive products? Does it welcomes the supplier's products?
4. What is the distributor's general reputation among suppliers and customers?
5. Does the distributor have adequate market coverage?
6. How competent is the distributor's management?
7. How does the distributor rate on aggressiveness, enthusiasm, and taking initiative?
8. Is the distributor the appropriate size to do business with us?

We have to consider the following factors for the selection of channel of distribution:

Product - Perishable goods need speedy movement and shorter route of distribution. For durable and standardized goods, longer and diversified channel may be necessary. Whereas, for custom made product, direct distribution to consumer or industrial user may be desirable. Also, for technical product requiring specialized selling and serving talent, we have the shortest channel. Products of high unit value are sold directly by travelling sales force and not through middlemen.

Market

1. For consumer market, retailer is essential whereas in business market we can eliminate retailing.
2. For large market size, we have many channels, whereas, for small market size direct selling may be profitable.
3. For highly concentrated market, direct selling is preferred whereas for widely scattered and diffused markets, we have many channels of distribution.
4. Size and average frequency of customer's orders also influence the channel decision.

Customer and dealer analysis will provide information on the number, type, location, buying habits of consumers and dealers in this case can also influence the choice of channels. For example, desire for credit, demand for personal service, amount and time and efforts a customer is willing to spend-are all important factors in channels choice.

Middlemen

1. Middlemen who can provide wanted marketing services will be given first preference.
2. The middlemen who can offer maximum co-operation in promotional services are also preferred.
3. The channel generating the largest sales volume at lower unit cost is given top priority.

Company

1. The company's size determines the size of the market, the size of its larger accounts and its ability to set middlemen's co-operation. A large company may have shorter channel.
2. The company's product-mix influences the pattern of channels. The broader the product- line, the shorter will be the channel. If the product-mix has greater specialization, the company can favour selective or exclusive dealership.
3. A company with substantial financial resources may not rely on middlemen and can afford to reduce the levels of distribution. A financially weak company has to depend on middlemen.
4. New companies rely heavily on middlemen due to lack of experience.
5. A company desiring to exercise greater control over channel will prefer a shorter channel as it will facilitate better co-ordination, communication and control.
6. Heavy advertising and sale promotion can motivate middlemen in the promotional campaign. In such cases, a longer chain of distribution is profitable.

Thus, quantity and quality of marketing services provided by the company can influence the channel choice directly.

Marketing Environment - During recession or depression, shorter and cheaper channel is preferred. During prosperity, we have a wider choice of channel alternatives. The distribution of perishable goods even in distant markets becomes a reality due to cold storage facilities in transport and warehousing. Hence, this leads to expanded role of intermediaries in the distribution of perishable goods.

Competitors - Marketers closely watch the channels used by rivals. Many a time, similar channels may be desirables to bring about distribution of a company's products. Sometimes, marketers deliberately avoid channels used by competitors. For example, company may by-pass retail store channel (used by rivals) and adopt door-to-door sales (where there is no competition).

Customer Characteristics - This refers to geographical distribution, frequency of purchase, average quantity of purchase and numbers of prospective customers.

Channel Compensation - This involves cost-benefit analysis. Major elements of distribution cost apart from channel compensation are transportation, warehousing, storage insurance, material handling distribution personnel's compensation and interest on inventory carried at different selling points. Distribution Cost Analysis is a fast growing and perhaps the most rewarding area in marketing cost analysis and control.

Channel member performance evaluation

Criterion	Frequently Used Operational Performance Measures	
Sales Performance	Gross sales. Sales by product and market segment. Sales growth over time	Actual sales/sales quota. Market share Price level realized
Inventory maintenance	Average inventory maintained. Inventory/sales ratio	Inventory turnover. On-time delivery
Selling capabilities	Total number of salespeople. Salespeople assigned to the supplier's products.	Salespeople assigned by geography. Account managers assigned to strategic customers.
Information provision	Sales data by customer. Information on end-user needs.	Information on inventories and returns.

Channel Strategy

As B2B organizations rush new products to market, failing to carefully plan a channel strategy is a common mistake. Often the biggest challenge with a new offering is forging a cross-functional alliance across the enterprise that includes channel interests earlier in the process. Unfortunately, many companies base their channel launch strategies on what works for the direct sales force — only to discover after the fact that they need to retool their plans post-launch to reflect partner-specific needs. Today, we're seeing more channel teams seeking an invitation to the exclusive "product marketing table" where product-specific strategy and launch decisions are made.

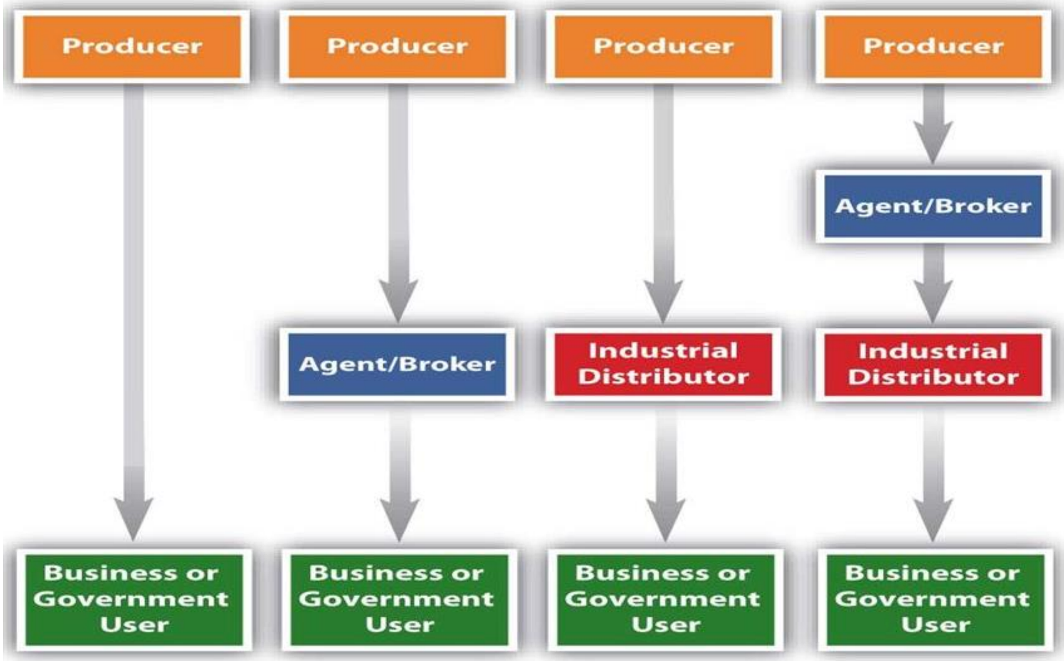
It's crucial to establish formal alignment during launch planning to ensure a channel strategy is developed and agreed upon. Specific channel conversations must take place at this critical stage. Channel marketing must provide insight on what makes partners tick rather than leaving product teams to base channel strategy on incorrect assumptions. This channel/product marketing alignment should pinpoint a new offering's best routes to market (e.g. ISVs, resellers, system integrators, retailers, consultants) and ensure that the strategy delivers a well-formed readiness and go-to-market plan. Serious decisions has identified three areas of alignment that must be addressed to develop channel business propositions and ensure channel readiness:

- ***Channel product alignment***. Clearly define what market segments will be targeted by partners; then, within those segments, determine the distribution strategy – who should be selling what and where. Additionally, strong and verifiable evidence should be provided showing how this new product stacks up against its competition and demonstrating why it's the best option for the partner to sell and the end-user to buy.
- ***Channel sales alignment***. Working together, product marketing and channel marketing should determine what the net margin will be for partners on the new offering and whether additional supplier products can be attached or complementary services added by the partner to increase the deal size. This teamwork should extend to identifying what channel competencies will be required to effectively address the needs of target markets – and determining whether current training courses provide sufficient coverage or new training paths/competency levels are necessary.
- ***Channel marketing alignment***. Partners sell and support what they know, so building awareness for new offerings is critical. Our data indicates that successful channel organizations spend up to one-third of their budgets on marketing to partners. Channel marketing should educate partners through business value propositions, while at the same time extending a joint (supplier/partner) value proposition through the partner to customers. Driving demand for partners is key to creating a successful launch for a new product. Most suppliers create programs for new products for partners to execute themselves, then layer incentives and funding to entice and support partners as part of a lead generation strategy.

Aligning channel and product marketing in the development of a product channel strategy bridges a significant gap that exists for some organizations. Addressing partner-specific needs is vital to create a clear and compelling business proposition for channel partners and answer the inevitable (often first) question from partners: "What's in it for me?" Having a strong answer to this question will accelerate adoption and get more partners on board faster with a supplier's launch of a new product.

For B2B organizations whose sales model includes a portion of their business going through partners, getting the channel a seat at the table is the ideal scenario for developing a new product channel strategy. Leading channel organizations have found that specifically addressing channel interests early in the product launch process, and establishing interlock between product marketing and channel marketing, can make the difference between success and failure when delivering products through the channel.

Marketing Channel Structure B2B:



Selecting Right Business-to-Business Channel

A business to business or B2B market is characterized by close technical and commercial dialogue between buyers and sellers. The manufacturer or the service provider often needs to manufacture or serve according to the customers' requirements. For example, an industrial plastic components' manufacturer has to work directly with customers during the design and development process while manufacturing the ordered components.

The importance of the product to the buyers or the type, frequency and quantity of purchasing largely influence the B2B distribution channel structures. For instance, companies might buy routine purchases like office stationeries through specialist retailers or distributors, because these are not important for the production lines. On the contrary, a key component to run the production line might need to be supplied directly to the buyer within a specific deadline. What type of distribution channel structure is suitable for your product or service depends on the sector of the business, on the type of product or service and cost effectiveness. We will shed light upon four basic structures of distribution channels that are widely practiced in B2B markets:

Manufacturer – Business Customer

Direct channel from manufacturer to the user is suitable for products with high technical content and high unit cost. Other rationales of opting for this channel are:

- Direct channel might become necessary if there is no wholesale service in the market where the manufacturer is operating and if the manufacturer is catering to a small group of local customers. The manufacturer has its own sales and distribution department, which can negotiate sales, provide services, meet customers' needs and capable to operate like the wholesalers.
- The sales representative can both sell and install the product, e.g. computer software. Sales branches can sell the products directly to the small retailers and wholesalers. In a direct distribution channel,

sales branches or sales offices should be set up in the areas where demand is high, especially in busy areas for better visibility and customers' conveniences. It is also convenient for the sales force in providing products and support services; as a result, they can meet customers' needs faster. Sales offices do not keep stock so they act like agents and pass on customers' orders to the head office.

- Direct channel gives the manufacturer more control over its distribution channel, which in turn, increases the efficiency and effectiveness of the links between the manufacturers and customers. They are likely to develop strong and longer business relationships.

Manufacturer – Business Distributor – Business Customer

Manufacturers or service providers who choose this less direct channel appoint agents on commission basis. They take the help of agents because of the agent's relevant market knowledge, well established contacts in the market and their superior buying/selling skills. Moreover, the manufacturer or the service provider can train the agents.

Manufacturer – Manufacturer's Representative - Business Customer

This less direct channel works well when the number of customers either goes up or down. This channel is also helpful when the intermediary functions increase. Building material industries usually follow this distribution channel structure.

Manufacturer – Manufacturer's Representative - Business Distributor - Business Customer

This channel structure is particularly helpful for export markets. Agents start by coordinating sales; distributors followed by filling the needs of inventory and restocking facilities close to the point of customer demands. A manufacturer and a retailer might also provide online service along with their bricks and mortar operation. In this way, they get the benefit of both direct and indirect selling. As a matter of fact, multiple distribution channel users can reach more market segments. However, it increases intra-channel competition and the trade members might become less supportive because of that. A flexible and far-sighted attitude in choosing the proper distribution channel is a necessity for your business growth. Say someone starts being a distributor or an agent of an international paint for a local market. The starting point might also be as a paints retailer. After accumulating good learning experiences about the trade, the business starts manufacturing its own brand of paint for that local market. Over the passage of time, the company evolves into an international manufacturer, retailer and distributor. Today's many corporate conglomerates once started as intermediaries, in this way. SMEs in Oman can also reach other countries through intermediaries in those countries or via international intermediaries. Exactly the same way foreign brands have been reaching Oman.

Variables Affecting Channel Structure

1. Market Variable
2. Product Variables
3. Company Variables
4. Intermediary Variables
5. Environmental Variables
6. Behavioural Variables

Market Variables

- Market Geography – location, geographical size and distance from producer
- Market Size – number of customers in a market
- Market Density – number of buying units
- Market Behaviour – who buys and how, when and where customers buy

Product Variables

- Bulk and Weight
- Perishability
- Unit Value
- Degree of Standardization
- Technical versus Non-technical
- Newness

Company Variables

- Size – the range of options is relative to a firm's size
- Financial Capacity – the greater the capital, lower is the dependence on intermediaries
- Managerial Expertise – intermediaries are necessary when managerial experience is lacking
- Objectives & Strategies – marketing and objectives may limit use of intermediaries

Intermediary Variables

- Availability – availability of intermediaries influences channel structure
- Cost – cost is always a consideration in channel structure
- Services – services that intermediaries offer are closely related to the selection of channel members

Environmental Variables

- Economic
- Socio Cultural
- Competitive
- Technological
- Legal

Behavioural Variables

- Develop congruent roles for channel members
- Be aware of available power bases
- Attend to the influence of behavioural problems that can distort communication

Channel Intensity

It refers to the number of intermediaries through which a manufacturer distributes its goods. Marketing channel intensity takes into account both the variance and number of channels an organization may use to deliver goods and services to consumers. As organizations develop their marketing channel strategies, an important question arises regarding distribution intensity. There is some freedom in most industries for a firm to determine which channels they will use, and how much volume each channel will receive. Weighing the pros and cons of various channels, both in terms of the number of channels and the volume within each channel, can have a significant strategic impact on a firm's position in a market.

There are three ways to frame the distribution intensity decision:

Intensive

An **intensive distribution** strategy seeks to distribute a product through all available channels in an area. Usually, an intensive distribution strategy suits items with wide appeal across broad groups of consumers, such as convenience goods. This is the highest in both number of channels and volume within each channel. Firms that choose an intensive distribution strategy try to sell their products in as many outlets as possible. Intensive distribution strategies are often used for convenience offerings—products customers purchase on the spot without much shopping around. Soft drinks and newspapers are an example. You see them sold in all kinds of different places.

Selective

Selective distribution is distribution of a product through only a limited number of channels. This arrangement helps to control price cutting. Selective distribution focuses on narrowing down the number of channels within the distribution strategy, but not the overall volume of goods sold through those channels. This strategy focuses on fewer channels yet retains a desire for higher volumes to capture scale economies in production. Common channels in these circumstances are channels where the firm can maintain strategic control of how the products are sold, at what price, and in which regions. Selective distribution strategies are suitable for shopping products such as clothing, furniture, household appliances, computers, and electronic equipment for which consumers are willing to spend time visiting different retail outlets to compare product alternatives. Producers can choose only those wholesalers and retailers that have a good credit rating, provide good market coverage, serve customers well, and cooperate effectively. Wholesalers and retailers like selective distribution because it results in higher sales and profits than are possible with intensive distribution where sellers have to compete on price.

Exclusive

Exclusive distribution is distribution of a product through one wholesaler or retailer in a specific geographical area. Though marketers may sacrifice some market coverage with exclusive distribution, they often develop and maintain an image of quality and prestige for the product. In addition, exclusive distribution limits marketing costs since the firm deals with a smaller number of accounts. In exclusive distribution, producers and retailers cooperate closely in decisions concerning advertising and promotion, inventory carried by the retailers, and prices. Exclusive distribution is typically used with products that are high priced, that have considerable service requirements, and when there are a limited number of buyers in any single geographic area. Exclusive distribution allows wholesalers and retailers to recoup the costs associated with long selling processes for each customer and, in some cases, extensive after-sale service. Specialty goods are usually good candidates for this kind of distribution intensity.

Technology and Channels

Technology has disrupted some of the logic behind these channel decisions, as digital storefronts have grown to be highly influential, easily accessible to global markets, and substantially cheaper than retail space. As the rise of digital purchasing continues, and the cost of shipping decreases, globalization will drive organizations more and more towards channel strategies that optimize online exposure.

Channel Conflict and Resolution

- A channel conflict may be defined as an “A situation in which one channel member perceives another channel member(s) to be engaged in behaviour that prevents it from achieving its goals”.
- Conflict is opposition, disagreement or discards among the organizations.
- It is needed to have positive effect as loopholes in the existing system can be plugged timely and performance can be maximized.
- It can keep other channel members on their toes knowing that a decline in performance might lead to a change in the channel arrangements.
- Channel conflict arises when the behaviour of a channel member is in opposition to its channel counterpart. It is opponent centred and direct in which the goal or object sought is controlled by the counterpart.

Conflict can be classified as:

- Vertical Conflict
- Horizontal Conflict
- Multi-channel Conflict

Vertical Conflict

- Vertical conflict occurs due to the differences in goals and objectives, misunderstanding, and mainly due to the poor communication.
- Lack of role clarity and over dependence on the manufacturers. For example, today the large distributors dominate the market and dictate the terms. Hence there are often conflicts between these giant distributors and manufacturers.
- Distributors expect manufacturers to maintain the product quality and production schedules and in turn manufacturers expect distributors to provide coordination functional services. If they fail to conform each other's expectations, channel conflict results.

Reasons for Vertical Conflict

Dual Distribution – manufacturers may bypass intermediaries and sell directly to consumers and thus they compete with the intermediaries.

Over Saturation – manufacturers permit too many intermediaries in a designated area that can restrict, reduce sales opportunities for individual distributor and ultimately shrink their profit.

Partial Treatment – manufacturers often offer different services and margins to different distributors even at same level or favour some members

New Channels – manufacturers develop and use innovative that create threat to establish channel participants

- No or inadequate sales support and training to intermediaries from the manufacturers
- Irregular communication, non-cooperation and rude behaviour with the channel member

Horizontal Conflict

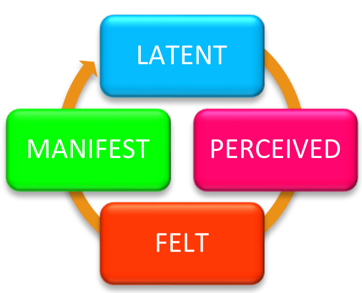
These are the conflicts between the channel members at the same level, i.e. two or more distributors. These conflicts can offer some positive benefits to the consumers. Competition or price war between two distributors can be in favour of consumers.

Reason Behind Horizontal Conflict

- Aggressive advertising and pricing by one distributor can affect business of other distributors.
- Extra service offered by one distributor can attract customers of others.
- Crossing the assigned territory and selling in other distributors area
- Unethical practices of one distributor can affect other and spoil the brand image.

Multi-Channel Conflict

- It occurs when the manufacturer uses dual distribution strategy i.e. the manufacturer uses two or more channel arrangements.
- Manufacturers can sell directly through their representatives. This can affect the business of other distributor selling the manufacturer's brand.
- **Stages of Conflict**



Latent Conflict

- Some amount of discord exists but does not affect the service objective.
- Disagreement could be on roles, expectations, perception, communication

Perceived Conflict

- Discords become noticeable – channel partners are aware of the opposition
- Channel members take the situation in their stride and go about their normal business
- No cause for worry but the opposition has to be recognized

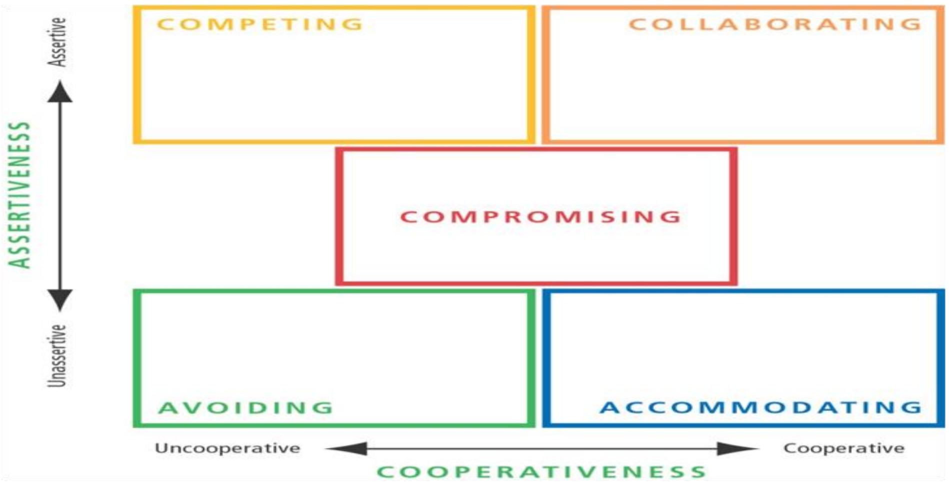
Felt Conflict

- Reaching the stage of worry, concern and alarm. Also known as "Affective Conflict"
- Parties try to outsmart each other
- Cause could be economical or personal
- Needs to be managed effectively and not allowed to escalate

Manifest Conflict

- Reflects open antagonistic behaviour of channel partners. Confrontation results.
- Initiative taken are openly opposed affecting the performance of the channel system.
- May require outside intervention to resolve.

Resolving Conflicts



Conflict Resolution Styles

Avoidance

- Used by weak channel members
- Problem is postponed or discussion avoided
- Relationships are not of much importance
- As there is no serious effort on getting anything done, conflict is avoided

Aggression

- Also known as competitive or selfish style
- It means being concerned about one's own goals without any thought of others
- The dominating channel partner (may be the Principal) dictates terms and condition to the others. Long term could be detrimental to the system.

Accommodation

- A situation of complete surrender
- One party helps the other achieve its goals without being worried about its own goals

- Emphasis is on full cooperation and flexibility in approach which may generate matching feeling in the receiver.
- If not handled properly, can result in exploitation

Compromise

- Obviously both sides have to give up something to meet mid-way.
- Can only work with small and less serious conflicts.
- Used often in the earlier two stages

Collaboration

- Also known as a problem solving approach
- Tries to maximize the benefit to both parties while solving the dispute
- Most ideal style of conflict resolution – a win-win approach
- Requires a lot of time and effort to succeed
- Sensitive information may have to be shared

Controlling Conflict and Motivating Channel Members

Cooperation between members in the channel can be achieved in two main ways. One way is to exercise authority through the use of the power that one organization may have over others. Another way is to establish trust and a spirit of collaboration between organizations. Through trust it is possible to develop a sense of commitment so that all organizations attempt to support one another.

Organizations seek to influence inter organisational relationships through a variety of communication strategies.

Influence Strategies

Strategy	Message	Power source
1. Promise strategy 2. strategy 3.Legalistic strategy 4.Request strategy Information 5.Exchange strategy 6.Recommendation strategy	1.If you do what we wish we will reward you. 2.If you do not do what we wish we will punish you. 3.You agreed, so you should do what we wish. 4.Please do what we wish. 5.We will not mention what we wish. 6.If you do what we wish you will be rewarded (e.g. more profitable).	1.Reward 2.Coercion 3.Legitimacy 4.Referent, reward, coercion 5.Expertise, reward 6.Expertise, reward

These days, the use of relative power positions based on access to and control of resources is no longer regarded as the preferred and pervasive marketing management tool. With the focus turning to the development and maintenance of buyer–seller relationships, trust and commitment have emerged as significant contemporary managerial concepts.

Motivating Channel Members

Distributors and representatives are independent and profit oriented. They are oriented toward their customers and toward whatever means are necessary to satisfy customer needs for industrial products and services. Their perceptions and outlook may differ substantially from those of the manufacturers they represent. As a consequence, marketing strategies can fail when managers do not tailor their programs to the capabilities and orientation of their intermediaries. To manage the business marketing channel effectively, the marketer must understand the intermediaries' perspective and device ways to motivate to perform in a way that enhances the manufacturer's long-term success. The manufacturer must continually seek support from intermediaries, and the quality of that support depends on the motivational techniques used.

Partnership

Channel member motivation begins with the understanding that the channel relationship is a partnership. Manufacturers and intermediaries are in business together; whatever expertise and assistance the manufacturer can provide to the intermediaries improves total channel effectiveness. One study of channel relationship suggested that manufacturers may be able to increase the level of resources directed to their products by developing a trusting relationship with their representatives; by improving communication through recognition programs, product training, and consultation with the representatives; and by informing the representatives of plans, explicitly detailing objectives, and providing positive feedback.

Another study of distributor-manufacturer working partnerships recommended similar approaches. It also suggested that manufacturers and their distributors engaged in joint annual planning that focuses on specifying the cooperative efforts each firm requires of its partner to reach its objectives and that periodically reviews progress toward objectives. The net result is trust and satisfaction with the partnership as the relationship leads to meeting performance goals.

Dealer Advisory Councils

One way to enhance the performance of all channel members is to facilitate the sharing of information among them. Distributors or representatives may be brought together periodically with the manufacturer's management to review distribution policies, provide advice on marketing strategy, and supply industry intelligence. Intermediaries can voice their opinions on policy matters and are brought directly into the decision-making process.

Margins and Commission

In the final analysis, the primary motivating device is compensation. The surest way to lose intermediary support is compensation policies that do not meet industry and competitive standards. Representatives or distributors who feel cheated on commissions or margins shift their attention to products generating a higher profit. The manufacturer must pay the prevailing compensation rates in the industry and must adjust the rates as conditions change.

Intermediaries' compensation should reflect the marketing task they perform. If the manufacturer seeks special attention for a new industrial product, most representatives require higher commissions. Many industrial distributors charge separate fees for the value-added services they provide. For this approach to work effectively, it is critical that the client understands the value it is receiving for the extra charges.

Building Trust

The very nature of a distribution channel – with each member dependent on another for success – can invite conflict. Conflict can be controlled in various ways, including channel-wide committees, joint goal setting, and cooperative programs involving a number of marketing strategy elements. To compete, business marketers need to be effective at cooperating within a network of organization – the channel.

Successful cooperation results from relationships in which the partners have a strong sense of communication and trust. Robert M. Morgan and Shelby D. Hunt suggest that relationship commitment and trust develop when:

- Firms offer benefits and resources that are superior to what other partner could offer
- Firms align themselves with other firms that have similar corporate values
- Firms share valuable information on expectations, markets, and performance

- Firms avoid taking advantage of their partner.

By following these prescriptions, business marketers and their channel network can enjoy sustainable competitive advantages over their rivals and their networks.

Channel Integration

Integrated Marketing is an approach to creating a unified and seamless experience for consumers to interact with the brand/enterprise; it attempts to meld all aspects of marketing communication such as advertising, sales promotion, public relations, direct marketing, and social media, through their respective mix of tactics, methods, channels, media, and activities, so that all work together as a unified force. It is a process designed to ensure that all messaging and communications strategies are consistent across all channels and are centred on the customer.

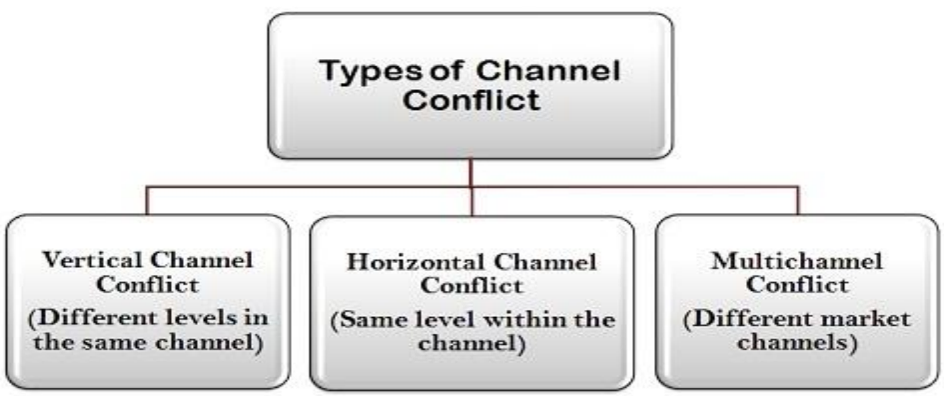
AAA - A planning process designed to assure that all brand contacts received by a customer or prospect for a product, service, or organization are relevant to that person and consistent over time.

AAAA - IMC is an approach to achieving the objectives of a marketing campaign, through a well-coordinated use of different promotional methods that are intended to reinforce each other. As defined by the American Association of Advertising Agencies, integrated marketing communications … recognizes the value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines advertising, public relations, personal selling, and sales promotion and combines them to provide clarity, consistency, and maximum communication impact.

Importance of Channel Integration

- Bridge the gap
- Streamline the physical and information
- Reduces the uncertainty, cost and risk
- Degree of integration
- Better management
- Better coordination
- Barrier of other competitors

Types of Channel Integration:



1. Horizontal Marketing System (HMS)
2. Vertical Marketing System (VMS)
3. Multi-Channel Marketing System (MMS)

Horizontal Marketing System (HMS)

A horizontal marketing system is a distribution channel arrangement whereby two or more organizations at the same level join together for marketing purposes to capitalize on a new opportunity. For example: a bank and a supermarket agree to have the bank's ATMs located at the supermarket's locations; two manufacturers combining to achieve economies of scale otherwise not possible with each acting alone to meet the needs and demands of a very large retailer; or two wholesalers joining together to serve a particular region at a certain time of year.

According to businessdictionary.com, a horizontal marketing system is a merger of firms on the same level in order to pursue marketing opportunities. The firms combine their resources, such as production capabilities and distribution, in order to maximize their earnings potential.

Advantages of Horizontal Marketing System

- Horizontal integration of related businesses allows them to achieve economies of scale by selling more of the same product through geographic expansion.
- HMS includes the economies of the scope through synergies achieved by sharing of resources common to different products and reduction in the cost of international trade by operating factories in foreign countries.

Disadvantages of Horizontal Marketing System

- The integration of business may result in problems related to size such as lack of coordination.
- Conflicts between members
- Decrease in flexibility

Horizontal integration occurs when a company decides to merge, acquire or take over another company in the same industry and at the same stage of production. When a company can achieve the advantages of a horizontal integration, the company can diversify its products or services, sell those products or services to a larger market, reduce the costs to produce its newly diversified products or services, and reduce the amount of external competition.

When horizontal integration hampers a company, the worst disadvantage the company can face is a reduction in overall value to the firm because the expected synergies never materialize, despite the costs of the horizontal integration. Other disadvantages can include legal repercussions if the horizontal merger results in a company that may be considered a monopoly and a reduction in flexibility due to the fact that it is now a larger organization.

Vertical Marketing System (VMS):

A vertical marketing system (VMS) is one in which the main members of a distribution channel work together as a unified group in order to meet consumer needs. In conventional marketing systems, producers and business distributors are separate businesses that are all trying to maximize their profits. When the effort of one channel member to maximize profits comes at the expense of other members, conflicts can arise that reduce profits for the entire channel. To address this problem, more and more companies are forming vertical marketing systems.

Vertical marketing systems can take several forms. In a corporate VMS, one member of the distribution channel owns the other members. Although they are owned jointly, each company in the chain continues to perform a separate task. In an administered VMS, one member of the channel is large and powerful enough to coordinate the activities of the other members without an ownership stake. Finally, a contractual VMS consists of independent firms joined together by contract for their mutual benefit. One type of contractual VMS is a retailer cooperative, in which a group of retailers buy from a jointly owned wholesaler. Another type of contractual VMS is a franchise organization, in which a producer licenses a wholesaler to distribute its products.

Advantages of Vertical Marketing System

- It allows you to invest in assets that are highly specialized.
- It gives you more control over your business.
- It allows for positive differentiation.
- It requires lower costs of transaction.
- It offers more cost control.
- It ensures a high level of certainty when it comes to quality.
- It provides more competitive advantages.

Disadvantages of Vertical Marketing System

- It can have capacity-balancing problems.
- It can bring about more difficulties.
- It can result in decreased flexibility.
- It can create some barriers to market entry.
- It can cause confusion within the business.
- It requires a huge amount of money.
- It makes things more difficult.

Multi-Channel Marketing System (MMS)

Multichannel marketing refers to the practice of engaging prospects, leads and customers across a combination of indirect and direct communication channels. A channel could be a device, medium, or network. Multichannel marketing is important for the simple reason that you must be where your customers are.

Module-4

Logistic Management:

LOGISTIC MANAGEMENT

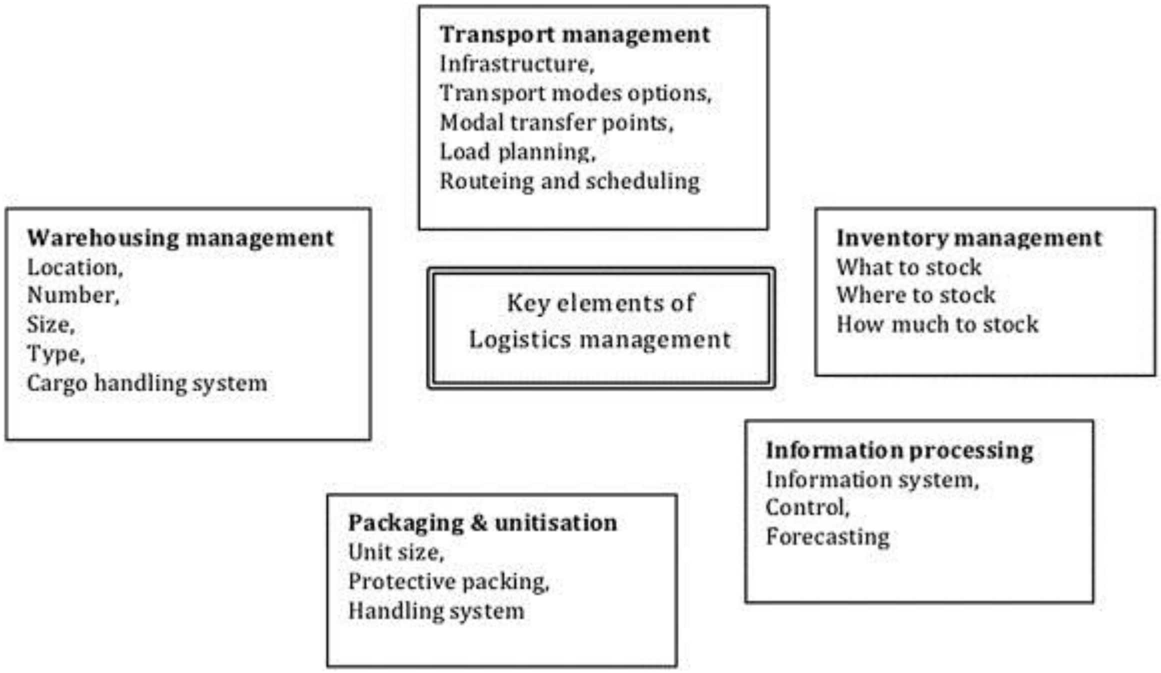
Logistics management is the governance of <u>supply chain management</u> functions that helps organizations plan, manage and implement processes to move and store goods. Logistics management activities typically include inbound and outbound transportation management, fleet management, warehousing, materials handling, <u>order fulfilment</u>, logistics network design, inventory control, supply/demand planning and management of third-party logistics services providers.

In a manufacturing enterprise, the business process starts with the flow of material from the suppliers to the manufacturing plant and then to the customer through the distribution channel. Traditionally in the functional organisation, the business process consists of discrete activities such as procurement, manufacturing, and distribution under the control of the respective departments. The departments may excel in their respective functions, but as an organisation, their performance may be dismal. This might happen because of three reasons:

- A lack of coordination in their activities
- Different goals to cherish
- No single agency could control them to cherish a common goal

The concept of logistics is based on the system approach. The flow of material from a supplier to a manufacturing plant and finally to the end customer is viewed as a single chain, ensuring efficiency and effectiveness in sequential activities to achieve the objective of customer satisfaction at a reduced cost.

Logistics recognises that all the activities of material movement across the business process are interdependent and need close coordination. These activities are to be managed as a system and not as functional silos. The functional areas of logistics, termed "Logistics Mix" by Martin Christopher, consist of:



Importance of Logistics:

Reduced Delivery Time

Reduced delivery time refers to a shortening of the period between a customer ordering a product and that customer receiving the product. When companies need to ship inventory (as e-commerce businesses do), delivery time is a vital concern of both logistics and marketing. By shortening delivery time, businesses can impress customers and create loyalty while adding more value to their processes than competitors have.

Pinpointing Customer Issues

With a highly efficient logistics strategy, companies can easily track product orders and product shipment data. This allows a business to spot exactly where a product has gone, what product was originally ordered and shipped and what needs to happen to fix problems with the order. With such expert tracking and communication procedures, a business can easily placate an irate customer and turn a bad situation into a good marketing opportunity.

Quality Control

Logistics is also important to manufacturers, because it allows for a high level of control over production processes and immediate adaptations. A company does not want to produce flawed products that have inherent problems -- few things are as damaging to a business's reputation. With efficient logistics, a manufacturer can spot problems immediately and quickly narrow down the issue to find the source and correct it.

Extra Services

Many businesses offer extra services as part of their marketing strategy; these allow them to impress customers through advanced customer service techniques. With modern logistics, companies can offer advanced tracking options for product shipments that customers can track at any time. Good logistics also allows for greater product customization and tools for customers to use themselves.

Logistics has gained importance due to the following trends

- Raise in transportation cost.
- Production efficiency is reaching a peak
- Fundamental change in inventory philosophy
- Product line proliferated
- Computer technology
- Increased use or computers
- Increased public concern of products Growth of several new, large retail chains or mass merchandise with large demands & very sophisticated logistics services, by pass traditional channel & distribution.
- Reduction in economic regulation
- Growing power of retailers
- Globalization

As a result of these developments, the decision maker has a number of choices to work out the most ideal marketing logistics system. Essentially, this system implies that people at all levels of management think and act in terms of integrated capabilities and adoption of a total approach to achieve pre-determined logistics objectives.

Furthermore Logistics has gained importance in the international marketing with the following reasons:

- Transform in the customers attitude towards the total cost approach rather than direct cost approach
- Technological advancement in the fields of information processing and communication.
- Technological development in transportation and material handling.
- Companies are centralizing production to gain economies of scale.
- Most of the MNC organizations are restructuring their production facilities on a global basis.
- In many industries, the value added by manufacturing is declining as the cost of materials and distribution climbs.
- High volume data processing and transmission is revolutionizing logistics control systems.
- With the advancement of new technologies, managers can now update sales and inventory planning faster and more frequently, and factories can respond with more flexibility to volatile market conditions.
- Product life cycles are contracting. Companies that have gone all out to slash costs by turning to large scale batch production regularly find themselves saddled with obsolete stocks and are unable to keep pace with competitors‟ new-product introductions.
- Product lines are proliferating. More and more product line variety is needed to satisfy the growing range of customer tastes and requirements, and stock levels in both field and factory inevitably rise.
- The balance of power in distribution chain is shifting from the manufacturers to the trader.

Importance of Logistics in Business

Inflows

You need supplies, raw materials and information flowing into your business so you can use them to create or deliver your products or services. If a delivery comes late or a computer goes down when you are expecting vital information, your logistics are not working. You either need to become a logistics expert or hire one to make sure you get what you need on time. If you provide an office cleaning service, for example, and your cleaning supplies don't arrive on time, you can't clean offices that depend on you.

Internal Flow

Supplies, materials and information flow through your company once they arrive. They must arrive on time at various workstations, desks and offices so your employees can use them. For example, the financial background check you perform on a company cannot be delayed if the officer approving credit for the company has to meet a deadline.

Storage and Retrieval

Some items come into your company and must be stored until needed. Physical products and supplies must be stored, and information must be filed electronically or physically. When you need these items, you must have a system for identifying and retrieving them. If a customer places a special order for a product and the warehouse supervisor stores it until you receive payment, you must be able to count on the supervisor to find the item when you are ready for it.

Outflow

You make a living delivering your product or service to your customers. That's what they pay for. Whether you ship, deliver, transmit or physically go to a customer's home or business to perform a service, you cannot afford any glitches in this function. If a vital machine part for the repair of a customer's air conditioning arrives, you must see that it gets delivered to the customer's site and that an installer is there at the same time to install it.

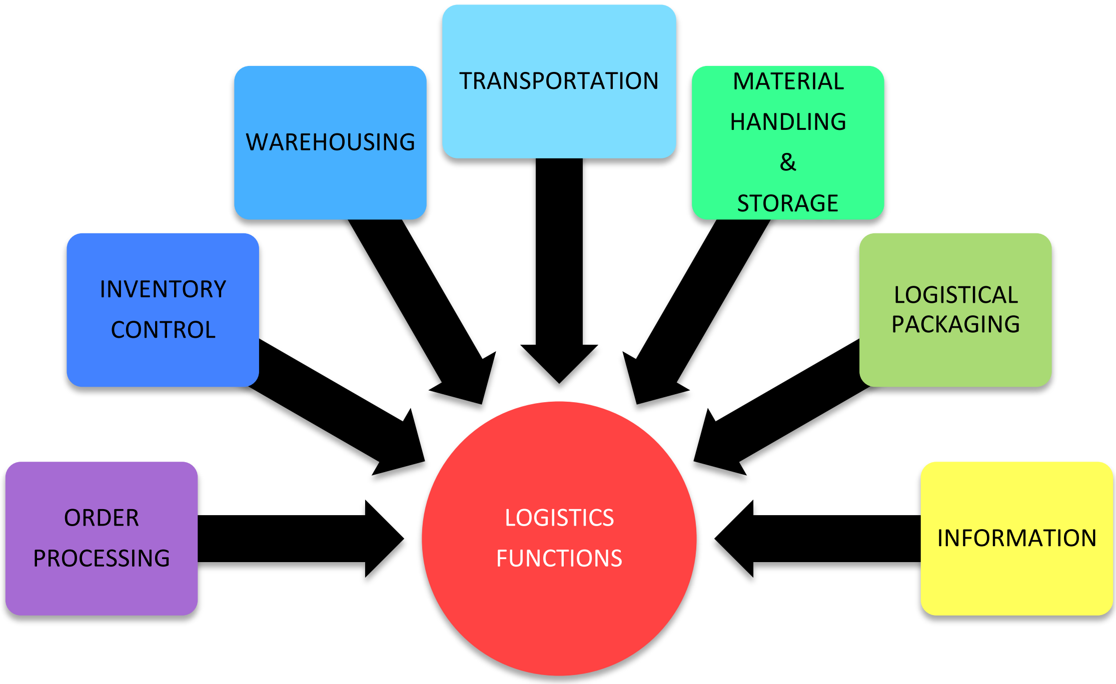
Costs Are Significant

The economic forces of change are further acting to alter logistics cost relationships and force careful re-planning of logistics systems around the world. Trade barriers are falling as free trade is encouraged in countries that previously had strictly managed economies. Tariffs are being eliminated to allow the free flow of goods across political boundaries, giving firms the opportunity to reposition their logistics networks for lower costs and higher customer service. Finally, the world economies seem to be on a wave of economic deregulation that will heighten competition. Since transportation is frequently a target for deregulation, logistics system costs will be affected.

Globalization of Industries

Globalization/internationalization of industries everywhere will depend heavily on logistics performance and costs, as companies take more of a world view of their operations. As this happens, logistics takes on increased importance within the firm since logistics costs, especially the transportation component, become a significant part of the total cost structure. For example, if a firm seeks foreign suppliers for the materials entering its product or foreign locations to build its products, the motivation is to increase profit. Material and labour costs may be reduced, but logistics costs are likely to increase due to increased transportation and inventory costs. The trade-off, may lead to higher profit by reducing materials, labour, and overhead costs at the expense of logistics costs and tariffs. Outsourcing adds value, but it requires more careful management of logistics costs and product flow times in the supply channel.

Functions of Logistics:



Order processing

It is an important task in functions of logistics operations. The purchase order placed by a buyer to a supplier is an important legal document of the transactions between the two parties. This document incorporates the description or technical details of the product to supply, price, delivery period, payment terms, taxes, and other commercial terms as agree.

The processing of this document is important as it has a direct relationship with the order or the performance cycle time, which indicates the time when the order is received and when the materials are received by the customer. The order processing activity consists of the following steps:

- Order checking for any deviations in agrees upon or negotiated terms
- Prices, payment and delivery terms.
- Checking the availability of materials in stock.
- Production and material scheduling for shortages.
- Acknowledging the order indicating deviations if any.

Inventory control

Inventory management is to keep enough inventories to meet customer requirements, and simultaneously its carrying cost should be lowest. It is basically an exercise of striking a balance between the customer service for not losing market opportunity and the cost to meet the same.

The inventory is the greatest culprit in the overall supply chain of a firm because of its huge carrying cost, which indirectly eats away the profits. It consists of the cost of financing the inventory, insurance, storage, losses, damages, and pilferage. The average cost of carrying inventory varies from 10 to 25 percent of the total inventory per year depending on the products.

Warehousing

Warehousing is the storing of finished goods until they are sold. It plays a vital role in logistics operations of a firm. The effectiveness of an organization's marketing depends on the appropriate decision on warehousing. In today's context, warehousing is treated as switching facility rather than a storage of improper warehousing management. Warehousing is the key decision area in logistics. The major decisions in warehousing are:

- Location of warehousing facilities
- Number of warehouses
- Size of the warehouse
- Warehouse layout
- Design of the building
- Ownership of the warehouse

Transportation

For movement of goods from the supplier to the buyer, transportation is the most fundamental and important component of logistics. When an order is placed, the transaction is not completed till the goods are physically moved to the customer's place. The physical movement of goods is through various transportation modes. In logistics costs, its share varies from 65 to 70 percent in the case of mass-consumed, very low unit-priced products.

Firms choose the mode of transportation depending on the infrastructure of transportation in the country or region. Cost is the most important consideration in the selection of a particular mode of transport. However, sometimes urgency of the good at the customer end overrides the cost consideration, and goods are sent through the fastest mode, which is an expensive alternative.

Material handling and storage system

The speed of the inventory movement across the supply chain depends on the material handling methods. An improper method of material handling will add to the product damages and delays in deliveries and incidental overheads. Mechanization and automation in material handling enhance the logistics system productivity. Other considerations for selection of a material handling system are the volumes to be handled, the speed required for material movement and the level of service to be offered to the customer.

The storage system is important for maximum space utilization (floor and cubic) in the given size of a warehouse. The material handling system should support the storage system for speedy movement (storage and retrieval) of goods in and out of the warehouse.

Logistical Packaging

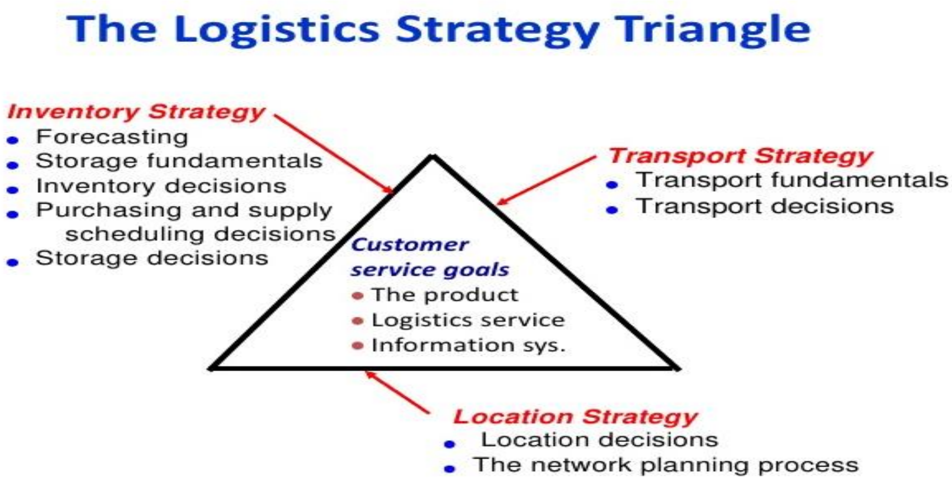
Logistical or industrial packaging is a critical element in the physical distribution of a product, which influences the efficiency of the logistical system. It differs from product packaging, which is based on marketing objectives. However, logistical packaging plays an important role in damage protection, case in material handling and storage space economy. The utilisation of load has a major bearing on logistical packaging with regard to the packaging cost.

Information

Logistics is basically an information-based activity of inventory movement across a supply chain. Hence, an information system plays a vital role in delivering a superior service to the customers. Use of IT tools for information identification, access, storage, analysis, retrieval and decision support which is vital among the functions of logistics is helping business firms to enhance their competitiveness.

Logistics strategy:

Firms spend a great deal of time finding ways to differentiate their product offerings from those of their competitors. When management recognizes that logistics impacts on a significant portion of a firm's costs and that the result of decisions made about the supply chain yields different levels of customer service, it is in a position to use this information effectively to penetrate new markets, increase market share, and increase profits.



The three strategies are in trade-off with each other. That is, a good location strategy is dependent on the manner in which inventories are managed and on the resulting inventory levels, and on the transportation service selected. Inventory levels are dependent on the number and location of facilities as well as the transportation service selected. And so the interdependence goes. Hence, a triangle of logistics strategy. Logistics network design is based on three objectives–cost minimization, capital minimization, and logistics customer service maximization. Not all of these objectives can be achieved simultaneously since they may be in conflict. For example, minimizing costs and simultaneously maximizing service are incompatible.

Objectives of marketing logistics

The General objectives of the logistics can be summarized as:

1. Cost reduction
2. Capital reduction
3. Service improvement

The specific objective of an ideal logistics system is to ensure the flow of supply to the buyer, the:

1. Right product
2. Right quantities and assortments
3. Right places
4. Right time
5. Right cost / price and,
6. Right condition

Market Logistic Decisions:

Market logistic includes planning the infrastructure to meet demand, then implementing and controlling the physical flows of materials and final goods from points of origin to points of use, to meet customer requirements at a profit.

Interrelated aspects associated with market logistic:

- Physical Distribution
- Supply Chain Management (SCM)
- Value Network
- Demand Chain Planning
- Market Logistics

- Integrated Logistics Systems (ILS)

Market logistics planning has four steps:

- Deciding on the company's value proposition to its customers.
- Deciding on the best channel design and network strategy for reaching the customers.
- Developing operational excellence in sales forecasting, warehouse management, transportation management, and material management.
- Implementing the solution with the best information system, equipment, policies and procedures.

Market logistics objectives:

MARKETING AND LOGISTIC INTERFACE		
Marketing Activities	Logistic Activities	Marketing Logistic Interface
• Marketing Research • Product Mix • Pricing • Promotion • Sales Force Management	• Forecasting • Transportation • Storage • Packing • Order Fulfilment	• Customer Service • Transport • Inventory Processing • Material Handling • Information

- It means getting the right goods to the right place at the right time for the least cost.
- Market-logistic cost interact and are often negatively related.

Many companies state their market logistics objectives as "getting the right goods to the right places at the right time for the least cost." This means a market logistics system has to simultaneously provide maximum customer service at the minimum distribution cost.

Maximum customer service implies large inventories, premium transportation and multiple warehouses, all of these raise market-logistics costs. A company cannot achieve market-logistics efficiency by asking its logistics manager to minimize the logistics costs.

Some of the major market logistics objectives of a company are as follows:

Logistics Decisions: Market logistics activities involve strong trade-offs, decisions must be made on a total system basis. Customers are interested in on-time delivery, suppliers desire to meet emergency needs and also have willingness to take back defective goods and re-supply them quickly at their costs. A company must then research the relative importance of these service outputs.

Market Logistics and Cost:

Let us consider, a machine manufacturer has established the following service standards:

1. To deliver at least 95 percent of the dealer's orders within 7 days of order receipt.
2. To fill the dealer's orders with 99 percent accuracy.
3. To answer dealer inquiries on orders with 99 percent accuracy.
4. To answer that damage to merchandise in transit does not exceed one percent.

Given above market—logistics objectives, the company must design a system that will minimise the cost of achieving these objectives.

Each possible market logistics system may give rise to the following empirical equation:

$M = T + FW + VW + S$

Where, M = Total market-logistics cost of proposed system.

T = Total freight cost of proposed system.

FW = Total fixed warehouse cost of proposed system.

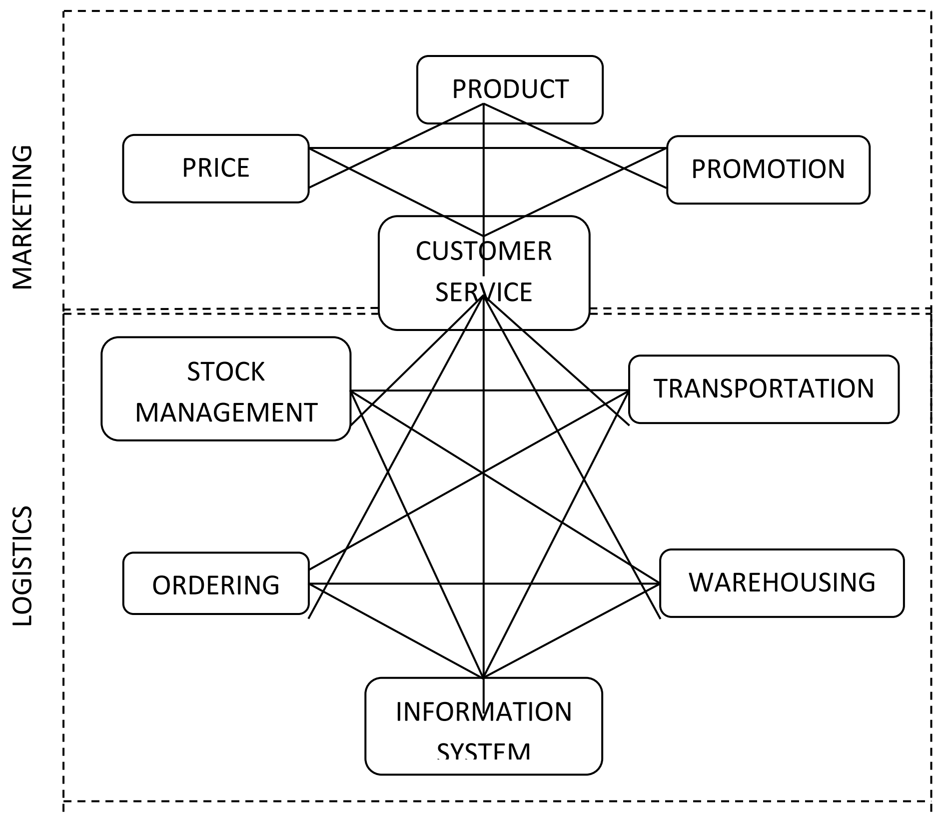
VW = Total variable warehouse costs (including inventory) or proposed system.
S = Total cost of lost sales due to average delivery delay under proposed system.
Choosing a market logistics system calls for examining the total cost (M) associated with different proposed system and selecting the system that minimises it. If it is difficult to measure S, the company should aim to minimise T + FW + VW for a target level of customer service.

Market Logistics Decisions:

Four major decisions must be made with regard to market logistics:

1. How should orders be handled? (Order Processing).
2. Where should stocks be located? (Warehousing).
3. How much stock should be held? (Inventory).
4. How should goods be shipped? (Transportation).

Connection between Marketing and Logistics



Logistic Activities in Supply Chain Management:

Logistic as the Critical Element in Supply Chain Management

Nowhere in business marketing strategy is SCM more important than in logistics.
Logistics management is that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer's requirement. Logistics management is an integration function that coordinates and optimizes all logistic activities, as

well as integrates logistic activities with other functions including marketing, sales, manufacturing, finance, and information technology.

Effective business marketing demands efficient, systematic delivery of finished products to channel members and customers. The importance of this ability has elevated the logistics function to a place of prominence in the marketing strategy of many business marketers.

Distinguish between logistics and supply chain management

Logistics is a critical element in SCM. In fact, there is considerable confusion about the difference between the discipline of SCM and logistics. SCM is focused on the integration of all business processes that add value for customers. The 1990's witnessed the rising importance of time-based competition; rapidly improving Information technology, expanding globalisation, increasing attention to quality, and the changing face of inter firm relationship. These Trends combined to cause companies to expand their perspective on logistics to include all the forms involved in creating a finished product and delivering it to the buyer or user on time and in perfect condition. The SCM concept is an integrating philosophy for coordinating the total flow of supply channel from supplier to ultimate user. Logistics is critical, however, to business marketers, because regardless of the orientation of the entire supply chain, the firm relies on its logistics system to deliver product in a timely, low cost manner.

Managing flow

The significance of the supply chain perspective and logistical management is that the business marketing manager focuses attention on the performance of all participants in the supply chain. The manager also coordinates their efforts to enhance the timely delivery of the finished product to the ultimate user at the lowest possible cost. Inherent in the supply chain approach is the need to form close relationship with the supply chain participants, including vendors, transportation suppliers, warehousing companies, and distributors. The focus of logistics in the SCM for business marketer is the flow of product through the supply chain, with timely information driving the entire process.

The Strategic Role of Logistics

In the past, logistics was viewed simply as a cost of doing business but today, many companies view logistics as a critical strategic weapon that can value to customer relationship. For many business marketers, logistics is the primary marketing tool for gaining and maintaining competitive superiority. These firms typically recognise that logistics performance is an important part of marketing strategy, and they exploit their logistics competencies. Companies that incorporate logistics planning and management into long-term business strategies can achieve significant benefits, which create real value for the company.

Sales-Marketing-Logistics Integration

The rising value of logistics as a strategic marketing weapon has fostered the integration of the sales, marketing, and logistics functions of many business marketers. In progressive firms, unified teams of sales, production, logistics, information systems, and marketing personnel develop integrated logistics programs to offer to potential customers. Teams of specialists from each area make sales calls and tailor logistics solutions to customer problems.

Just-in-Time systems

To serve a customer, business market is must be prepared to deliver their products frequently and with precise timing. The reason is the widespread adoption by manufacturing firms, like Honda of America, of the just-in-time (JIT) inventory principle. Under this principle, suppliers carefully coordinate deliveries with the manufacturer's production schedule - often delivering products just hours before they are used. The objective of a JIT system is to eliminate waste of all kinds from the production process by requiring the delivery of the specified product at the precise time and in the exact quantity needed. The quality must be perfect - there is no opportunity to inspect products in the JIT process. Because JIT attempts to relate purchases to production requirements, the typical order size shrinks, and more frequently deliveries are required. Increased delivery frequency presents a challenge to the business marketing production and logistics system. However, business marketers will have to meet this challenge, as many competitors now complete on the basis of inventory turns and speed to market.

Elements	**Key Aspects**
Customer service	The “product” of Logistic activities, customer service relates to the effectiveness in creating time and place utility. The level of customer service provided by the supplier has a direct impact on total cost market share, and profitability.
Order processing	Order processing triggers the logistic process and directs activities necessary to deliver product to customers. Speed and accuracy of order processing effect costs and customers service level.
Logistics Communications	Information exchanged in the distribution process guides the activities of the system. it is the vital link between the firm's logistic system and its customers.
Transportation	The physical movement of products from source of supply through production to customers is the most significant cost area in logistics, and it involves selecting modes and specific carriers as well as routing.
Warehousing	Providing storage space serves as a buffer between production and use. Warehousing may be used to enhance service and to lower transportation costs.
Inventory control	Inventory is used to make products available to customers and to ensure the correct mix of products is at the proper location at the right time.
Packaging	The role of packaging is to provide protection to the product, to maintain product identity throughout the logistic process, and to create effective product density.
Materials handling	Materials handling increase the speed of, and reduces the cost of, picking orders in the warehouse and moving products between storage and the transportation carriers. It is a cost-generating activities that must be controlled.
Production planning	Utilised in conjunction with logistics planning, production planning ensures that products are available for inventory in the correct assortment and quantity.
Plant and warehouse location	Strategic placement of plants and warehouses increases customer service and reduces the cost of transportation.

Order Processing:
Involve following activities:

- Order checking for any deviation in agreed on negotiation term
- Technical details – price, delivery period, payment terms, taxes etc.
- Checking the availability of material in stock (material requisition)
- Production and material scheduling for shortage
- Acknowledging the order, indicating deviation if any

It is routine operation but require great deal of planning, training of people involved and investment to bring about efficiency and accuracy.

In a large organization a system capable of handling thousands of voluminous orders with minimum human involvement or without human involvement is a must involving shortened order fulfilment cycle to have edge over rivals.

The order fulfilment process refers to all the steps companies must take from the moment they receive an order until the items land in customers' hands. For many wholesale distribution companies, an order fulfilment process might look like this:

- Order is received, either in person, on the phone, via email, etc.
- Order must be entered into back office systems (like an ERP or accounting platform)
- Customer is notified that the order has been received.
- Order is sent to the warehouse. A paper order might be taken to the warehouse as part of a batch, or it is sent directly from an invoicing or sales order management application.
- Order is picked: a worker goes into the warehouse, finds the items in the order, and picks them off the shelf.
- Order is packed to prepare for shipping.
- Order is shipped.
- Customer is notified that the order is on its way.
- Order arrives.

One of the ways companies judge the efficiency of their order fulfilment processes is by looking at the Perfect Order Metric. A perfect order is one that is on time, complete, and undamaged, along with the correct paperwork to accompany it. This metric is similar to fill rate, which we've discussed on the blog before. Although companies all say they strive for perfect orders every time, it's a difficult thing to achieve. Here are some insights and tips to help your business fulfil orders more quickly, accurately and efficiently.

Order Fulfilment Process Challenges

Businesses face several challenges throughout the order fulfilment process. These include challenges related to demand planning, inventory management, supply chain optimization, logistics planning, and several other complex concerns. However, at the risk of over-simplifying matters, what it really boils down to is knowing and being able to make effective decisions about what you have to sell, whether a customer is likely to buy it, and how are you going to get it to them if they do.

Let's break the problem down into its different parts:

1. Demand Planning: Demand planning involves knowing in advance what demand for a product will be, as well as *demand shaping,* or a company's efforts to try to generate demand, like marketing and promotions.

2. Inventory Management: Order fulfilment is all about meeting customer expectations, and it's hard to do that if you are out of stock on the items customers want. Knowing what's in stock and being able to provide visibility on stock levels as the order is placed prevents customers from being disappointed with backorders and delays.

3. Supply Chain Execution: When items are low or out of stock, how quickly can you get them back in stock? How quickly can your manufacturers produce more product? From there, how long will it take to get to your warehouses? These are supply chain execution questions that can also impact order fulfilment.
4. Logistics Planning: Once the items are ready to ship, how are you going to get them to the customer? How long will it take? Will the items be handled carefully so they arrive in one piece?

Strategies to Speed up Order Fulfilment Process

When it comes to speeding up order fulfilment, there are many steps you can take to make a big impact. Start by looking at some of the "quick wins" that don't require a massive investment of dollars, but will make a quick difference, such as classifying your inventory and ensuring that it is stored as logically as possible.

The next step is to make sure that you are making the most of the systems you already have in place. Many companies have the pieces in place that are needed to improve their order fulfilment processes, but are unable to get the most from these systems. Finally, you can also look at making new investments in automation to speed up your order handling times.

1. **Classify your inventory to ensure rapid handling**: Grouping your inventory from fastest moving to slowest moving helps to ensure that you always have the right stock levels on your most important items. Put the most popular items in a centrally located area of your warehouse to ensure that they can be picked, packed and delivered to the shipping dock in a minimal amount of time. Slower moving items can be stored in a separate area. This more logical arrangement can really cut down on the time it takes to process and fulfil orders.
2. **Integrate systems for more visibility into all aspects of order fulfilment:** In order to quickly fulfil an order, you need visibility into several areas—demand forecasting, sales, inventory, and logistics just to name a few. At a minimum, this requires some level of integration between the sales order management system where the order is placed, and the ERP system that maintains financial data, as well as the inventory and logistics systems that that handle the processes for picking, packing and shipping.
3. **Automate processes:** After your systems are able to provide more visibility into all aspects of the process, you should also look at how the processes themselves can be sped up. Automation doesn't necessarily mean investing in robotics or conveyors; it can be as simple as investing in scanners to more easily enter inventory into the system as it arrives in your warehouse, or scanning it out as it leaves. And for smaller businesses, the investment doesn't have to be huge. There are even applications that can be downloaded to a smart phone or tablet to automate this process inexpensively.

Each of these methods has a dual benefit. Reclassifying inventory from fastest moving to slowest will not only help save time in the order fulfilment process, it will also save money in terms of labour costs in the warehouse. Systems integration will help to improve the order fulfilment process but also provide better reporting and analytics that can aid decision-making and profitability. And automating processes speeds order fulfilment but also provides more accurate data for future orders.

Transportation

- Process of moving an item from point A to point B.
- Safe, efficient, reliable and sustainable movement of persons and goods over time and space.

Transportation in Logistic

- The operation of transportation determines the efficiency of moving products.

- The progress in techniques and management principles improves the moving load, delivery speed, service quality, operation costs, the usage of facilities and energy saving
- Transportation takes a crucial part in the logistic operation

Transportation is usually the largest single logistical expense, and with continually rising fuel cost, its importance will probably increase. Typically, the transportation decision involves evaluating and selecting both a mode of transportation and the individual carrier that will ensure the best performance at the lowest cost. Mode refers to the type of carrier – rail, truck, water, air, or some combination of the four. Individual carriers have evaluated on rates and delivery performance. The supply chain view is important in selecting individual carriers. Carriers become an integral part of the supply chain, and close relationship are important. One study found evidence that carriers' operating performance improved when they were more involved in the relationship between buyer and seller. By further integrating carriers into the supply chain, the entire supply chain can improve its competitive position. In this section we consider:

- The role of transportation in industrial supply chain
- The criteria for evaluating transportation options

Transportation and Logistical Service

A business marketer must be able to effectively move finished inventory between facilities to channel intermediaries and to customers. The transportation system is the link that binds the logistical network together and ultimately results in timely delivery of products. Efficient warehousing does not enhance customer service levels if transportation is inconsistent or inadequate.

Transportation Performance Criteria

Cost of service is the variable cost of moving products from origin to destination, including any terminal or accessory charges. The cost of service may range from a little ₹0.5 per ton-km via water to as high as ₹25 per ton-km via airfreight. The important aspect of selecting the transportation mode is not cost per se but cost relative to the objective to be achieved. Bulk raw materials generally do not require prepaid delivery service, so the cost of anything other than rail or water transportation could not be justified. On the other hand, although airfreight may be almost 10 times more expensive than motor airfreight, the cost is inconsequential to a customer who needs an emergency shipment of spare parts. The cost of premium (faster) transportation modes may be justified by the resulting inventory reductions.

Speed of service refers to the elapsed time to move products from one facility (plant or warehouse) to another facility (warehouse or customer plant). Again, speed of service often over ides costs. Rail, a relatively slow mode used for bulk shipments, requires inventory builds up at the supplier's factory and at the destination warehouse. The longer the delivery time, the more inventory customers must maintain to service their needs while the shipment is in transit. The slower modes involve lower variable costs for product movement, yet they result in lower service levels and higher investments in inventory. The faster modes produce just the opposite effect. Not only must a comparison be made between modes in terms of service but various carriers within a mode must be evaluated on their "door-to-door" delivery time.

Service consistency is usually more important than average delivery time, and all modes of transportation are not equally consistent. Although air provides the lowest average delivery time, generally it has the highest variability in delivery time relative to the average. The wide variations in modal service consistency are particularly critical in business marketing planning. The choice of transportation mode must be made on the basis of cost, average transit time, and consistency if effective customer service is to be achieved.

In summary, because business buyers often place a premium on effective and consistent delivery service, the choice of transportation mode is an important one - one where cost of service is often secondary. However, the best decision on transportation carriers results from a balancing of service, variable costs and investment requirements of ordinary, verses expedited (rush order), shipments.

Importance of Transportation

- Without well-developed transportation system, logistic could not bring its advantages into full play.
- A well operated logistic system could increase both the competitiveness of the government and enterprises.
- Transportation system is the most important economic activity among the components of business logistic system.

Transportation Functionality

Product Movement

- Temporal – product is locked during transit, hence inaccessible
- Financial – administration costs, salaries, maintenance costs expended
- Environmental – fuel costs are high (creates air pollution, congestion, noise pollution)

Product Storage

- When loading and unloading is more expensive than storage
- When storage space is limited (situation when inventory levels are high)

Types of Transportation

Rail Transport

Advantages

- It is convenient mode of transport for travelling long distances
- Its operation is less affected by adverse weather like rains, fog etc.

Disadvantages

- It is not available in remote part of the country
- It involves heavy losses of life as well as goods in case of accident

Road Transport

Advantages

- It is relatively cheaper mode of transportation as compared to other modes
- It is flexible mode of transportation as loading and unloading is possible at any destination

Disadvantages

- Due to limited carrying capacity, road transport is not economical for long distance transportation of goods

Water Transport

Advantages

- It promotes international trades
- The cost of maintaining and constructing routes is very low most of them are naturally made

Disadvantages

- It is slow moving mode of transport so it is not suitable for perishable goods
- It is adversely affected by weather conditions

Air Transport

Advantages

- It is fastest mode of transport
- It is the most convenient of transport during natural calamities

Disadvantages

- It is relatively more expensive mode of transport
- It is not suitable for shirt distance travel

Warehousing

Warehouses or distribution centres are places where raw materials, semi-finished or finished goods are stored. They represent an interruption in the flow of material and thus add cost to the system. Items should be warehoused only if there is an offsetting benefit gained from storing them.

Warehouses include plant warehouses, regional warehouses, and local warehouses. They may be owned and operated by the supplier or intermediaries such as wholesalers, or they may be public warehouses. The latter offer a general service to their public that includes providing storage space and warehouse services. Some warehouses specialize in the kinds of services they offer and the goods they store.

Warehousing and warehouse management are part of a logistics management system, which is itself a component in supply chain management. Although viewed by some as simply a place to store finished goods, inbound functions that prepare items for storage and outbound functions that consolidate, pack and ship orders provide important economic and service benefits to both the business and its customers.

Central Location

A warehouse provides a central location for receiving, storing and distributing products. As each inbound shipment arrives, responsibility for the goods transfers to warehouse personnel; products are identified, sorted and dispatched to their temporary storage location. Storage isn't a static "thing" but rather a process that includes security measures and maintaining an environment that preserves the integrity and usefulness of the items. Once it's time to move items, each order is retrieved, grouped, packaged and checked for completeness before being dispatched to their new destination.

Value-Adding Operation

The objective of a logistics system is to reduce cycle times and overall inventories, lower costs and most importantly, improve customer service. Warehousing increases the utility value of goods by providing a means to have the right products available at the right place in the right time. Operations such as order consolidation, order assembly, product mixing and cross-docking that take place within the warehouse structure also add value to the overall logistics system.

Economic Benefits

Warehouses provide economies of scale through efficient operations, storage capacity and a central location. Economic benefits are realized, for example, through consolidation and accumulation operations. Consolidation operations cut outbound delivery costs for both the business and its customers. Instead of shipping items individually from multiple sources, items are delivered to a central warehouse, packaged together and shipped back out as a complete order. Accumulation operations allow a warehouse to act as a buffer, balancing supply and demand for seasonal and long-term storage. This can be vital to business profitability when demand for a product is year-round but the product may only be available at certain times of the year.

Service Benefits

Warehouses can serve as part of a contingency plan to ensure outbound orders are filled in full and on time. A practice called safety stocking allows businesses to maintain a predetermined number of inventory items at its warehouse. On the inbound side, safety stocking means that an emergency such as a transportation delay or a shipment containing defective or damaged goods won't delay filling and shipping customers order. On the outbound side, safety stocking is insurance against out-of-stock items.

The service function that warehouses perform can be classified into two kinds:

- **The general warehouse** where goods are stored for long periods and where the prime purpose is to protect goods until they are needed. There is minimal handling, movement, and relationship to transportation. Furniture storage or a depository for documents is examples of this type of storage. It is also the type used for inventories accumulated in anticipation of seasonal sales.
- **The distribution warehouse** has a dynamic purpose of movement and mixing. Goods are received in large-volume uniform lots, stored briefly, and then broken down into small individual orders of different items required by the customer in the marketplace. The emphasis is on movement and handling rather than on storage. This type of warehouse is widely used in distribution systems. The size of the warehouse is not so much its physical size as it is the throughput or volume of traffic handled.

Role of warehouses

Warehouses serve three important roles:

Transportation consolidation

As discussed before, transportation costs can be reduced by using that concept of warehouse. This is accomplished by consolidating small (LTL) shipments into large (TL) shipments.

Consolidation can occur in both the supply and distribution systems. In physical supply, LTL shipments from several suppliers can be consolidated at a warehouse before being shipped as TL to the factory. In physical distribution, TL shipments can be made to a distant warehouse and LTL shipments made to local users.

Product mixing

Although transportation consolidation is concerned with the reduction of transportation costs, product mixing deals with the grouping of different items into an order and the economics that warehouse can provide in doing this. When customers place orders, they often want a mix of products that are produced in different locations.

Without a distribution centre, customers would have to order from each source and pay for LTL transport from each source. Using a distribution centre, orders can be placed and delivered from a central location.

Service

Distribution centres improve customer service by providing place utility. Goods are positioned close to markets so the markets can be served more quickly.

Inventory Management

Inventory – raw materials, component parts, work-in-process, or finished products that are held at a location in the supply chain. Inventory is an idle stock of physical goods that contain economic value, and are held in various forms by an organization in its custody awaiting packing, processing, transformation, use or sale in a future point of time.

Any organization which is into production, trading, sale and service of a product will necessarily hold stock of various physical resources to aid in future consumption and sale. While inventory is a necessary evil of any such business, it may be noted that the organizations hold inventories for various reasons, which include speculative purposes, functional purposes, physical necessities etc.

From the above definition the following points stand out with reference to inventory:

- All organizations engaged in production or sale of products hold inventory in one form or other.
- Inventory can be in complete state or incomplete state.
- Inventory is held to facilitate future consumption, sale or further processing/value addition.
- All inventoried resources have economic value and can be considered as assets of the organization.

Inventory Management - Inventory management and supply chain management are the backbone of any business operations. With the development of technology and availability of process driven software applications, inventory management has undergone revolutionary changes. In the last decade or so we have seen adaptation of enhanced customer service concept on the part of the manufacturers agreeing to manage and hold inventories at their customers end and thereby affect Just in Time deliveries. Though this concept is the same in essence different industries have named the models differently. Manufacturing companies like computer manufacturing or mobile phone manufacturers call the model by name VMI - Vendor Managed Industry while Automobile industry uses the term JIT - Just in Time whereas apparel industry calls such a model by name - ECR - Efficient consumer response. The basic underlying model of inventory management remains the same.

Different Types of Inventory

Inventory of materials occurs at various stages and departments of an organization. A manufacturing organization holds inventory of raw materials and consumables required for production. It also holds inventory of semi-finished goods at various stages in the plant with various departments. Finished goods inventory is held at plant, FG Stores, distribution centres etc. Further both raw materials and finished goods those that are in transit at various locations also form a part of inventory depending upon who owns the inventory at the particular juncture. Finished goods inventory is held by the organization at various stocking points or with dealers and stockiest until it reaches the market and end customers.

Besides Raw materials and finished goods, organizations also hold inventories of spare parts to service the products. Defective products, defective parts and scrap also forms a part of inventory as long as these items are inventoried in the books of the company and have economic value.

Independent Demand

An inventory of an item is said to be falling into the category of independent demand when the demand for such an item is not dependent upon the demand for another item. Finished goods Items, which are ordered by External Customers or manufactured for stock and sale, are called independent demand items. Independent demands for inventories are based on confirmed Customer orders, forecasts, estimates and past historical data.

Dependant Demand

If the demand for inventory of an item is dependent upon another item, such demands are categorized as dependant demand. Raw materials and component inventories are dependent upon the demand for Finished Goods and hence can be called as Dependant demand inventories.

Types of Inventory by Function

INPUT	**PROCESS**	**OUTPUT**
Raw Materials	Work In Process	Finished Goods
Consumables required for processing. Eg : Fuel, Stationary, Bolts & Nuts etc. required in manufacturing	Semi-Finished Production in various stages, lying with various departments like Production, WIP Stores, QC, Final Assembly, Paint Shop, Packing, Outbound Store etc.	Finished Goods at Distribution Centres throughout Supply Chain
Maintenance Items/Consumables	Production Waste and Scrap	Finished Goods in transit
Packing Materials	Rejections and Defectives	Finished Goods with Stockiest

		and Dealers
Local purchased Items required for production		Spare Parts Stocks & Bought Out items
		Defectives, Rejects and Sales Returns
		Repaired Stock and Parts
		Sales Promotion & Sample Stocks

How Inventory is used

- Anticipation or seasonal inventory
- Safety stock – buffer demand fluctuation
- Lot-size or cycle stock – take advantage of quantity discounts or purchasing efficiencies
- Pipeline or transportation inventory
- Speculative or hedge inventory protects against some future events like labour strike
- Maintenance, repair and operational inventory (MRO)

Objective of Inventory Management

- The objective of inventory management is to strike a balance between inventory investment and customer service.
- Provide acceptable level of customer service (on-time delivery)
- Allow cost-efficient operations
- Minimise inventory investment

Functions of Inventory management

- To meet anticipated demand
- To smooth production requirements
- To decouple operations
- To protect against stock-out
- To take advantage of order cycles
- To help hedge against price increase
- To permit operations
- To take advantage of quantity discounts

Need for Inventory Management

Inventory is a necessary evil that every organization would have to maintain for various purposes. Optimum inventory management is the goal of every inventory planner. Over inventory or under inventory both cause financial impact and health of the business as well as effect business opportunities.

Inventory holding is resorted to by organizations as hedge against various external and internal factors, as precaution, as opportunity, as a need and for speculative purposes.

Most of the organizations have raw material inventory warehouses attached to the production facilities where raw materials, consumables and packing materials are stored and issue for production on JIT basis. The reasons for holding inventories can vary from case to case basis.

- **Meet variation in Production Demand**

  Production plan changes in response to the sales, estimates, orders and stocking patterns. Accordingly the demand for raw material supply for production varies with the product plan in terms of specific SKU as well as batch quantities. Holding inventories at a nearby warehouse helps issue the required quantity and item to production just in time.

- **Cater to Cyclical and Seasonal Demand**
  Market demand and supplies are seasonal depending upon various factors like seasons; festivals etc and past sales data help companies to anticipate a huge surge of demand in the market well in advance. Accordingly they stock up raw materials and hold inventories to be able to increase production and rush supplies to the market to meet the increased demand.
- **Economies of Scale in Procurement**
  Buying raw materials in larger lot and holding inventory is found to be cheaper for the company than buying frequent small lots. In such cases one buys in bulk and holds inventories at the plant warehouse.
- **Take advantage of Price Increase and Quantity Discounts**
  If there is a price increase expected few months down the line due to changes in demand and supply in the national or international market, impact of taxes and budgets etc., the company's tend to buy raw materials in advance and hold stocks as a hedge against increased costs.

  Companies resort to buying in bulk and holding raw material inventories to take advantage of the quantity discounts offered by the supplier. In such cases the savings on account of the discount enjoyed would be substantially higher that of inventory carrying cost.
- **Reduce Transit Cost and Transit Times**
  In case of raw materials being imported from a foreign country or from a faraway vendor within the country, one can save a lot in terms of transportation cost buy buying in bulk and transporting as a container load or a full truck load. Part shipments can be costlier.

  In terms of transit time too, transit time for full container shipment or a full truck load is direct and faster unlike part shipment load where the freight forwarder waits for other loads to fill the container which can take several weeks.

  There could be a lot of factors resulting in shipping delays and transportation too, which can hamper the supply chain forcing companies to hold safety stock of raw material inventories.
- **Long Lead and High demand items need to be held in Inventory**
  Often raw material supplies from vendors have long lead running into several months. Coupled with this if the particular item is in high demand and short supply one can expect disruption of supplies. In such cases it is safer to hold inventories and have control.

Effective Inventory Management

- To be effective, management must have the following:
- A system to keep track of inventory on hand and on order
- A reliable forecast of demand
- Knowledge of lead times and its variability
- Reasonable estimates of
  - Inventory holding (carrying cost)
  - Ordering cost
  - Shortage cost
- A classification system for inventory items

Components of Inventory Cost

Ordering Cost

Cost of procurement and inbound logistics costs form a part of Ordering Cost. Ordering Cost is dependant and varies based on two factors - The cost of ordering excess and the Cost of ordering too less. Both these factors move in opposite directions to each other. Ordering excess quantity will result in carrying cost of inventory. Whereas ordering less will result in increase of replenishment cost and ordering costs. These two above costs together are called Total Stocking Cost. If you plot the order quantity vs the TSC, you will see the graph declining gradually until a certain point after which with every increase in quantity the TSC will proportionately show an increase. This functional analysis and cost implications form the basis of determining the Inventory Procurement decision by answering the two basic fundamental questions - How Much to Order and When to Order? How much to order is determined by arriving at the Economic Order Quantity or EOQ?

Carrying Cost

Inventory storage and maintenance involves various types of costs namely:

- Inventory Storage Cost
- Cost of Capital

Inventory carrying involves Inventory storage and management either using in house facilities or external warehouses owned and managed by third party vendors. In both cases, inventory management and process involves extensive use of Building, Material Handling Equipment, IT Software applications and Hardware Equipment coupled managed by Operations and Management Staff resources.

Inventory Storage Cost

Inventory storage costs typically include Cost of Building Rental and facility maintenance and related costs. Cost of Material Handling Equipment, IT Hardware and applications, including cost of purchase, depreciation or rental or lease as the case may be. Further costs include operational costs, consumables, communication costs and utilities, besides the cost of human resources employed in operations as well as management.

Cost of Capital

Includes the costs of investments, interest on working capital, taxes on inventory paid, insurance costs and other costs associate with legal liabilities. The inventory storage costs as well as cost of capital is dependent upon and varies with the decision of the management to manage inventory in house or through outsourced vendors and third party service providers.

Current times, the trend is increasingly in favour of outsourcing the inventory management to third party service provides. For one thing the organizations find that managing inventory operations requires certain core competencies, which may not be in line with their business competencies. They would rather outsource to a supplier who has the required competency than build them in house.

Secondly in case of large-scale warehouse operations, the scale of investments may be too huge in terms of cost of building and material handling equipment etc. Besides the project may span over a longer period of several years, thus blocking capital of the company, which can be utilized into more important areas such as R & D, Expansion etc. than by staying invested into the project.

Inventory Classification

Every unit of inventory has an economic value and is considered an asset of the organization irrespective of where the inventory is located or in which form it is available. Even scrap has residual economic value attached to it. Depending upon the nature of business, the inventory holding patterns may vary. While in some cases the inventory may be very high in value, in some other cases inventory may be very high in volumes and number of SKU. Inventory may be help physically at the manufacturing locations or in a third party warehouse location. Inventory Controllers are engaged in managing Inventory. Inventory management involves several critical areas. Primary focus of inventory controllers is to maintain optimum inventory levels and determine order/replenishment schedules and quantities. They try to balance inventory all the time and maintain optimum levels to avoid excess inventory or lower inventory, which can cause damage to the business.

ABC Classification

Inventory in any organization can run in thousands of part numbers or classifications and millions of part numbers in quantity. Therefore inventory is required to be classified with some logic to be able to manage the same. In most of the organizations inventory is categorized according to ABC Classification Method, which is based on pareto principle. Here the inventory is classified based on the value of the units. The principle applied here is based on 80/20 principles. Accordingly the classification can be as under:

A Category Items Comprise 20% of SKU & Contribute to 80% of $ spend.

B Category Items Comprise 30% of SKU & Contribute to 15% of $ spend.

C Category Items Comprise 50% of SKU & Contribute to 5% of $ spend.

Advantages of ABC Classification

- This kind of categorization of inventory helps one manage the entire volume and assign relative priority to the right category. For Example A Class items are the high value items. Hence one is able to monitor the inventory of this category closely to ensure the inventory level is maintained at optimum levels for any excess inventory can have huge adverse impact in terms of overall value.
- **A Category Items:** Helps one identify these stocks as high value items and ensure tight control in terms of process control, physical security as well as audit frequency.
- It helps the managers and inventory planners to maintain accurate records and draw management's attention to the issue on hand to facilitate instant decision-making.
- **B Category Items:** These can be given second priority with lesser frequency of review and less tightly controls with adequate documentation, audit controls in place.
- **C Category Items:** Can be managed with basic and simple records. Inventory quantities can be larger with very few periodic reviews.

Disadvantages

- Inventory Classification does not reflect the frequency of movement of SKU and hence can mislead controllers.
- B & C Categories can often get neglected and pile in huge stocks or susceptible to loss, pilferage, slackness in record control etc.

Models of Inventory

Economic Order Quantity Models

The question of how much to order is frequently determined by using an Economic Order Quantity (EOQ) model. EOQ model identify the optimal order quantity by minimising the sum of certain annual costs that vary with order size. Three order size models are:

- The basic economic order quantity model
- The economic production quantity model
- The quantity discount model

The Economic Order Quantity Model

Assumptions:

- Only one product is involved
- Annual demand requirements are known
- Demand is even throughout the year
- Lead time does not vary
- Each order is received in a single delivery
- There are no quantity discounts

EOQ model inventory cycle:

The inventory cycle begins with receipt of an order of Q units, which are withdrawn at a constant rate over time. When the quantity on hand is just sufficient to satisfy demand during lead time, an order for Q units is submitted to the supplier. Because it is assumed that both the usage rate and lead time don't vary, the order will be received at the precise instant that the inventory on hand falls to zero. Thus, orders are timed to avoid both excess and stock outs.

The Economic Production Quantity Model

- Production done in batches or lots
- Capacity to produce a part exceeds the part's usage or damage rate
- Assumptions of EPQ are similar to EOQ except orders are received incrementally during production

Assumption:

- Only one item is involved
- Annual demand is know
- Usage rate is constant
- Usage occurs continually but production occurs periodically
- Production rate is constant
- Lead time does not vary
- No quantity discounts

Quantity Discount Model

- Quantity discounts are price reductions for large order offered to customers to induce them to buy in large quantities. In this case the price per unit decreases as order quantity increases.
- If the quantity discounts are offered, the buyer must weigh the potential benefits of reduced purchase price and fewer orders that will result from buying in large quantities against the increase in carrying cost caused by higher average inventories.
- The buyer's goal with quantity discounts is to select the order quantity that will minimise the total cost, where the total cost is the sum of carrying cost, ordering cost and purchasing cost

Factors Leading to Inventory Inefficiencies

In any company inventory management is one area that the managements always focus on when it comes to improving business efficiencies and cutting costs. An inventory reduction drive always yields results, which are visible and releases cash back into business. Does this mean that inventory management is inefficient? The answer can be a yes and a no.

Inventory management function is dependent upon physical operations involving multiple locations and agencies and processes. The inter dependence upon transactions which are sequential and parallel, renders inventory susceptible to inefficiencies occurring in operations, transactions, and documentation over a period of time.

Another possible factor that can hamper the inventory efficiencies is the system setup that is used to manage the inventory. Quite often one can find that the system setup and process defined in the system is not user friendly and cumbersome. An efficient system should define and guide the physical process as well as documentation process. The system process should in turn be developed based on the business process requirement. In many cases the operations are made to suit the system setup, which already exists in some basic form and not suited to the particular business process on hand.

Poor system setup that does not match with the shop floor warehouse set up renders operations in efficient. It is very common to come across complaints from users with regard to non-availability of features to work around the processes; at times processes are lengthy and cumbersome leading to operational delays. Non availability of different reports and loops and bugs in the system can often push the operations teams to find shortcut methods to bypass the system processes and carry on with the work, resulting in inventory inefficiencies as well as inefficient operations.

In cases where a company has outsourced the inventory management to a third party service provider, the inventory management complications increase manifold. You have the company's ERP or inventory system on one hand and the third part service provider's inventory management system or warehouse system on the other hand. At any given point of time both have to be reflecting the same inventory accuracy and also match with physical stock available on shop floor, but this is not the case always. In cases where the systems are interfaced too inventory in one system cannot mirror the other and reconciling transactions between the two systems can be cumbersome and time consuming.

Health of the inventory accuracy as well as inventory management can also depend upon the inventory strategy of the company and its outlook.

A few companies treat inventory to be a necessary evil and just about ensure processes are compliant and inventory audits are regularly held. They do not deal with and treat inventory as an important asset that needs to be managed and reviewed to keep it lean and accurate.

Those companies, which are aware of the implications and benefits that a lean inventory management practice can have on their business, strive to build good management practices and keep finding ways to optimize the processes. Any efficiency brought about with change in processes adds to the company's profits. Hence they give attention to and invest in driving inventory management strategy and practices, which are benchmarked against the best in the industry.

Decisions with regard to level of inventory to be carried, who owns and carries the inventory in the supply chain are some of the key decisions that drive efficiencies in inventory management. Besides this technology can also bring about process improvements speeding up the sales and delivery processes and to a certain extent reduces manpower resources and associated costs too.

Inventory management is an ongoing and dynamic process. To keep out the inefficiencies in systems, processes and physical operations, calls for active management participation and continuous improvement in all processes and systems that are involved in inventory management.

Factors affecting Inventory Operations

Inventory management operations are increasingly being outsourced to third party service providers, thereby ensuring that the investments and costs in managing the inventories are reduced. This is a welcome trend provided the company's focus on overseeing and reviewing both inventory management as well as inventory operations periodically to ensure proper controls are maintained and processes followed.

Inventory management entails study of data on movement of inventory, its demand pattern, supply cycles, sales cycles etc. Active management calls for continuous analysis and management of inventory items to target at lean m inventory Management.

Inventory Management function is carried out by the inventory planners in the company in close coordination with procurement, supply chain logistics and finance, besides marketing departments.

The efficiencies of inventory management are largely dependent upon the skills and knowledge of the inventory planners, the focus and involvement of management and the management policies coupled with the inventory management system.

However inventory operations management is not under the control of the inventory management team but rests with the third party service providers. In this section of the article we aim to uncover few of the critical areas and action points on the part of operations that can impact the inventory of the company.

Unskilled Labour and Staff: Inventory operations management is a process-oriented operation. Every task and action required to be carried out by the operatives will impact the inventory as well as the delivery lead times and other parameters. Therefore knowledge of what one is required to do and the effect of the action should be known to the operatives who are on the shop floor. For Example: If an operative is given a put away task, he should know how and where he should put away the pallet, how to scan the pallet ID and confirm it back to the system. Besides he should also know the impact of not completing any of these actions or doing something wrong. The impact his action will have on the system as well as physical inventory should be clear to the operative.

Secondly different inventory items would have to be handled differently. Operatives who are carrying out the task should know why and what is required to be done. They should also know the consequences of not following the process. A pallet might have to be scanned for the pallet id and put away on a floor location, while a carton might have to be opened and scanned for individual boxes inside and put away into a bin. The operatives should be trained on the entire process and understand why and what he is doing.

The WMS systems are quite operational and task intensive. Where the warehouses are being managed on RF based systems, the operatives should be able to manage the RF readers, understand how to access and complete transactions through the RF Guns.

Often it is noticed that when the warehouse operations are being managed by a third party service provider and the principle customer is not present at the location, the quality of staff and operatives is compromised and people are not given adequate training before being allocated their responsibility. Such situations can lead to inventory discrepancies.

In adequate SOP, Training and emphasis on processes compliance: When an inventory management project kicks off at a third party warehouse location, both the principle customer as well as the third party service provider work on the project and setup basic processes, document them in Standard Operating Procedures and conduct training as a part of the project management methodology.

However over a period of time the nature of business requirements changes, resulting in change in the operating processes. These do not get documented in terms of amendments and the SOPs become outdated. Thereafter one finds that the new comers who are introduced on the shop floor are required to learn the processes by working along with others whereas no training or SOP document is provided to him for reference. With the result they often have half-baked knowledge of the processes and carry on tasks not knowing why they are doing and what they are required to do.

This situation is very dangerous for the health of the inventory and it shows slackness in the attitude of the third party service provider. Continuation of such a situation will lead to bad housekeeping, inventory mismatches, and discrepancies and also affect the service delivery and if left unchecked can lead to theft, pilferage and misuse of inventory.

In any third party owned inventory operations warehouse, the principle client should ensure that periodic review and training is conducted for all staff. Inventory operations should be periodically reviewed and inventory counts and audits carried out regularly.

Operational Challenges in Inventory Management

The latest trend in all industries has been to outsource inventory management functions to Third Party Service providers. Companies outsource both Raw Material Inventory as well as Finished Goods to the Service Provider. In case of finished goods inventory, depending upon the supply chain design, there may be multiple stocking points at national, regional and state levels. In such an event each of the warehouses a different service provider may manage operations, as one may not be able to find a supplier having operations all over the country. Therefore the inventory in such a situation will be managed in the Company's system as well as in the Service provider's system. Inventory management and control becomes a critical function especially in such situations where multi locations and multiple service providers are involved.

To ensure Inventory control is maintained across all locations, following critical points if focused upon will help:

- **Establish and outline Operations Process for Service Providers:** Draw up SOP - Standard Operating procedure detailing warehouse operations process, warehouse inventory system process as well as documentation process.

  Especially in a 3rd Party Service Provider's facility, it is important to have process adherence as well as defined management, authorization and escalation structure for operations failing which inventory operations will not be under control.
- **Establish inventory visibility at each of the location through MIS Reports:** Draw up list of reports and MIS data for all locations and ensure they are mailed to a central desk in the inventory team for daily review. The inventory team leader should analyse daily reports of all locations and highlight any non-conformity and resolve them as well as update the management.
- Initiate Daily Stock count procedure to be carried out at all of the locations and reported back to the inventory desk. Daily stock count should be able to reflect location accuracy, stock accuracy as well as transaction summary for the day.
- Monthly audits and inventory count should be implemented at all locations without fail and insist on one hundred percent adherence.
- Quarterly inventory - wall-to-wall count or half yearly and annual wall-to-wall count should be implemented depending upon the volume of transactions as well as value of transactions at each location.
- Central Inventory team to be responsible for ensuring review of all reports and controlling inventories at all locations.
- Inventory reconciliation - involves reconciling physical inventory at site with the system inventory at 3PL Site and then reconciling 3PL System stocks with company's system stock.
- Visiting major sites and being present during physical stock audits on quarterly or half yearly basis is very important.
- Lastly keep reviewing processes and ensure training and re training is carried out regularly and at all times at site so that a process oriented culture is imbibed and all operating staff understand the importance of maintaining processes as well as inventory health.
- Inventory is nothing but money to the company. If 3PL vendor is managing the inventory, needless to say you should have your processes in place to be able to control and maintain inventory health.

Reverse Logistics and cost control in SCM

Increasingly, companies must deal with the flow of goods coming back from the final customer or other companies in the distribution channel. This reverse flow of goods is due to the increased quality demands of customers in the goods they purchase and to financial pressure on distributors to reduce slow-moving or unwanted inventories.

The eleventh edition of the APICS Dictionary defines reverse logistic a complete supply chain dedicated to the reverse flow of products and materials for the purpose of return, repair, remanufacture and/or recycling.

In some distribution channels, reverse logistics can represent major costs, which are growing partly due to the increased use of the Internet.

In addition to this, companies are being forced to take responsibility for the return packaging. There are two main categories of reverse logistics:

- **Asset recovery**, which is the return of actual products.
- **Green reverse logistics**, which represents the responsibility of the supplier to dispose of packaging materials or environmentally sensitive materials such as heavy metals and other restricted materials.

The costs of green reverse logistics are reduced through the use of reusable packaging, such as bins or racks rather than corrugated containers, or an overall reduction in the amount of packaging. Environmentally sensitive materials can be sorted and either reused in manufacturing or disposed of in the most cost-effective method possible, hopefully avoiding landfalls. Refillable beverage container reduces the need for landfill space but imposes a cost on the producer for sorting and handling.

Reducing costs associated with asset recovery involves coordinating the handling of the materials perhaps with the outbound flow of new goods. Information on the returned materials is necessary to ensure proper reuse or disposal of the materials. If the return will generate a credit to the sender, then this will also require information.

An example of this working quite well occurs with the replacement of a starter motor, which should be the same size and model as the replacement, is placed in the original carton and sent back to the supplier for a credit. The carton will have all the information describing the motor and can be sued for identification as it travels back to the builder. To reduce costs, distributors will coordinate the outbound shipments of new motors with the return of old motors for rebuilding.

Hidden Opportunities for Supply Chain Cost Reductions

Of course hidden costs, if you can find them, mean hidden opportunities. In the management of returns, costs you can look for and aim to eliminate or reduce include the following:

- Labour costs associated with customer relations (where there is a return, there may be an unhappy customer who must be appeased)
- Customer service labour costs (identifying warranty eligibility, determining what return and credit rules apply in each individual case)
- Transaction costs
- Transport and shipping costs
- Warehouse and storage costs

Much depends upon the nature of your supply chain operation of course. Some industries experience more returns than others. The impact of returns too, can differ from one industry or organisation to another. That's why the most important first step in improving reverse logistics management is to dig down and understand the true costs of product returns in your operation.

The Causes of Excessive Costs in Reverse Logistics

Unlike the forward flow of products through your supply chain, management and streamlining of the reverse process is seldom seen as a priority. That's typically for the following reasons:

- Unlike customer orders, there is usually no deadline for returns to arrive at their destination
- Products are moving against the normal flow, making for challenging process integration
- For many organisations, it's very difficult to forecast and plan for return volume
- Returns are typically seen as an inevitable cost and a low priority for management action
- These characteristics conspire to hide the costs of returns, making it difficult to see exactly where and when they impact budgets, which are geared towards a one-way flow of goods and materials.

Improving Reverse Logistics Management

Some companies that successfully manage reverse logistics have implemented automated process management. Others have formed dedicated reverse logistics functions, employing a team of people who do nothing else but manage the return of unwanted, damaged or recalled products. Another possibility, if your organisation handles a high volume of returns, is to outsource reverse logistics to a 3PL partner.

Whatever approach you take though, the important thing is to create a clear dividing line between the processes for outbound orders and those for returns. That's the bit which many companies miss and as a result, struggle to get visibility of costs attributable to product return.

Minimising Returns for Supply Chain Cost Reductions

Of course, the best solution of all is to eliminate or dramatically reduce the number of returns your company has to handle. In order to do that, you'll still need to improve traceability as a first step.

Once you have visibility of return volumes and reasons for return, you can put the necessary effort into understanding root causes and finding ways to diminish their impact. This may require the development of initiatives to improve manufacturing, storage, transportation, and/or customer service in relation to outbound product supply.

Putting It All Together

For most supply chain organizations, improving reverse logistics and reducing its cost will require steps to prevent or minimise returns, taken in conjunction with measures to streamline the reverse supply chain. As with most cost reduction efforts, you'll probably have to spend initially, in order to save. If reverse logistics was easy, every company would excel in its management and execution and I wouldn't be writing about the issues. Few things worth doing are easy though, so why not at least take a look for the hidden costs in your product-return processes? You might find there are some decent savings to be had enough perhaps, to do more than just look.

*****************The End****************

All The Best