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MARKETING

PHYSICAL DISTRIBUTION

Once goods are manufactured, packaged, branded, priced, and promoted, these must be made available to customers at the right place, in right quantity and at the right time. For example, a person convinced about the quality etc. of a product, say, a detergent bar, wants to purchase the same. He/She goes to a retail outlet and asks for the product. If that product is not available in that shop, he/she may purchase some of the alternative brand available. This way a sure sale is lost because goods were not available at the place where the customer wanted to purchase. Thus, it is an important responsibility of the marketers to make the product physically available at a place where the customers would like them to buy.

The physical handling and movement of goods from place of production to the place of distribution is referred to as physical distribution, which is a very important element of marketing mix. Physical distribution covers all the activities required to physically move goods from manufacturers to the customers. Important activities involved in the physical distribution include transportation, warehousing, material handling, and inventory control. These activities constitute major components of physical distribution. Components of Physical Distribution

The main components of physical distribution are explained as follows:

1. Order Processing: In a typical buyer-seller relationship order placement is the first step. Products flow from manufacturers to customers via channel members while orders flow in the reverse direction, from customers to the manufacturers. A good physical distribution system should provide for an accurate and speedy processing of orders, in the absence of which goods would reach the customers late or in wrong quantity or specifications. This would result in customer dissatisfaction, with the danger of loss of business and goodwill.

2. Transportation: Transportation is the means of carrying goods and raw materials from the point of production to the point of sale. It is one of the major elements in the physical distribution of goods. It is important because unless the goods are physically made available, the sale cannot be completed.

3. Warehousing: Warehousing refers to the act of storing and assorting products in order to create time utility in them. The basic purpose of warehousing activities is to arrange placement of goods and provide facilities to store them. The need for warehousing arises because there

may be difference between the time a product is produced and the time it is required for consumption. Generally the efficiency of a firm in serving its customers will depend on where these warehouses are located and where are these to be delivered.

Generally larger the number of warehouses a firm has, lesser would be the time taken in serving customers at different locations but greater would be the cost of warehousing and vice-versa. Thus the firm has to strike a balance between the cost of warehousing and the level of customer service. For products requiring long-term storage (such as agricultural products) the warehouses are located near production sites. This helps in minimising the charges on transportation of the goods. On the other hand, the products which are bulky and hard to ship (machinery, automobiles) as well as perishable products (bakery, meat, vegetables) are kept at different locations near the market.

4. Inventory Control: Linked to warehousing decisions are the inventory decisions which hold key to success for many manufacturers, especially those where the perunit cost is high. A very important decision in respect of inventory is deciding about the level of inventory. Higher the level of inventory, higher will be the level of service to customers but the cost of carrying the inventory will also be high because lotof capital would be tied up in the stock. Thus, a balance is to be maintained in respect of the cost and customer satisfaction. With advancements in computers and information technology the need for keeping higher inventory is reducing and the new concept of Just- in-Time-Inventory decision is becoming popular in an increasing number of companies.

The decision regarding level of inventory involves prediction about the demand for the product. A correct estimate of the demand helps to hold inventory and cost level down to a minimum. This not only helps the firm in terms of the cash flows but also in terms of its ability to maintain production at a consistent level. The major factors determining inventory levels include:

(a) firm's policy regarding the level of customer service to be offered. Higher the level of service greater will be the need to keep more inventories;

(b) degree of accuracy of the sales forecasts. In case more accurate estimates are available, the need for keeping very high level of inventory can be minimised;

(c) responsiveness of the distribution system i.e., ability of the system to transmit inventory needs back to the factory and get products in the market. In case the time required to respond to the additional demand for the products is high there is a need to maintain higher inventory. But if the additional demand can be met in less time, the need for inventory will also be low; and

(d) cost of inventory, which includes holding cost such as cost of warehousing, tied up capital, etc and the manufacturing cost.