UNIT-4

Market Distribution In Supply Chain

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Understand what Market Distribution is
- ✓ Explain the Channels of Distribution in a Supply Chain
- ✓ Examine the Market Distribution Strategy and Channel Design Process

Unit 4

What is Distribution?

Throughout history, distribution has been associated with a question: "how can I get this particular product to the consumer?"

Thus, distribution in supply chain management must be focused on the following decisions:

- Whether to Sell the Manufactured Goods Directly or Through A Retailer
- Whether the Product Should Be Distributed Through Wholesalers
- Whether Multi-Level Marketing Modes Should Be Used For Selling Products
- Whether Channel Members Should Share Advertising Costs.

The Channels of Distribution

Quite often, there will be a series of intermediaries who pass the product to other businesses. The product may change hands a number of times before it finally reach the customer. This is what we refer to as a "**Distribution Channel**". The manufacturer needs to take in to consideration the fact that every participant in the distribution channel may have unique requirements they expect to be satisfied by the product – and that is prior to even reaching the end client!

Various distribution channel alternatives might be available, depending on the exact nature of the product or service you are offering. It may be best, for instance, for you to get rid of the channel completely and sell straight via the Internet, mail order or by telephone. Or you can hire an agent, who will sell your product directly on your behalf. Alternately, you could employ a distributor, who will sell your product to retailers. They, in return, will make sure that your customers get the end product.

A product can be sold in number of ways – the same also being true for services. Hotels frequently sell their services via travel agents, centralized Internet portals, airlines and so on.

In fact, recent years have brought about a great many innovations in the area of service distribution. One example has been the huge increase in rental services and franchising. Rental services these days may offer anything from tools to televisions and beyond.

There has also been much greater integration in service industries, where two or more associated services join forces to offer related services. This is mainly evident in the field of travel and tourism. These days, you can rent a car, book a flight and reserve a hotel room all on a single website. There is also rising demand for retail outlets for service providers. In shopping malls, you will always see plenty of travel agencies, real estate businesses and other service providers.

There can be many different levels to every distribution channel. There are zero level channels, which involves distribution without any intermediary whatsoever. One-level channels contain one intermediary – in the case of standard consumer goods, this generally refers to the retailer. If it is products for manufacturing we are talking about, then that one mediator will usually be a distributor. For smaller markets, using a zero or one-level plan can be both efficient and effective.

For larger markets however, it is usually better to make use of a two-level system, which involves a wholesaler. This allows an extensive numbers of retailers to obtain and sell the product. The Japanese market employs even more levels than this, having developed a highly multifaceted distribution system for even the simplest customer items.

Market Distribution in the Supply Chain

Think of a society in which each individual is completely self-sufficient: every individual would manufacture and consume all of the products and services needed for survival, so there would be no requirement for any economic activity associated with the trade of goods and services between individuals.

Though idealistic, no such society exists at present. In reality, as individuals start to specialize in the manufacturing of specific goods or services, a system must be developed for the trade of those goods and services, to satisfy the needs of those purchasing them. To do so economically and efficiently, firms must address three discrepancies:

- **Discrepancy in space**
- **Discrepancy in time**
- **Discrepancy in assortment and quantity**

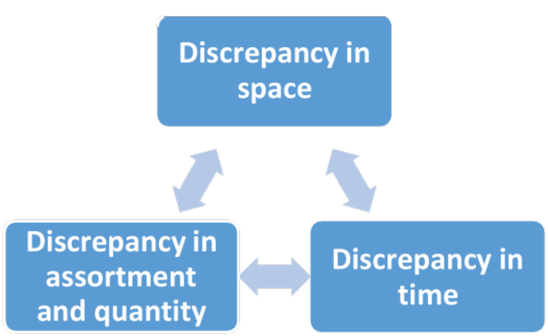

Fig. 4.1

Discrepancy in space refers to the fact that the position of production activities and the site of consumption are hardly ever the same. Consider, for instance, the household furniture business. Most household furnishings in the United States are made in small geographic districts in North Carolina, while a huge proportion of office furniture is produced in western Michigan. But where does demand for the products exist? Throughout the entire United States! These disparities between the site of production and the site of consumption are basic problems that must be deal with to facilitate exchange.

Discrepancy in time refers to the difference in timing between production and consumption. Some products, farming commodities for instance, are manufactured during short time periods, but are required by customers constantly. On the other hand, many products are manufactured in anticipation of future customer demand. Since manufacturing frequently does not happen at the same time products are demanded, warehousing and inventory are required.

Discrepancy in quantity and assortment refers to how manufacturing businesses typically focus on the production of large quantities of a diversity of items. Customers, on the other hand, usually order small quantities of many items. This disparity between the production and consumption sectors of the market must somehow be balanced, in order to deliver the product diversity and assortment customers' demand.

The primary challenges of exchange are resolved through general market distribution procedures. This system is usually termed as the **channel of distribution.**

A channel of distribution can be explained as a network of institutions and organizations, which in combination carry out all the functions necessary to connect producers with end customers. An understanding of distribution channels is necessary for logistics executives, as it is within the channel that any logistics plan is executed to satisfy customer requirements. In the following section, important elements of channel theory linked to marketing functions, specialization, the sorting procedure and channel separation are re-evaluated, in order to highlight the link between marketing channel requirements and logistical adjustment.

Marketing Functions

Those who study marketing recognize that a number of specific acts or activities are vital to the successful completion of trade.

Although there are a lot of ways to order these functions, the conventional list includes:

- Selling
- Buying
- Transporting
- Storing
- Financing

- Standardization
- Market financing
- Risk bearing
- Market information

In the typical channel arrangement, a role might alternately be performed by diverse channel members, or it might be performed and duplicated many times.

Selling is essential to raise the product demand, through both the improvement of products that meet market needs and through methods of demand stimulation, such as publicity and personal selling. Buying involves the preparation and attainment of assortments so that appropriate quantities and qualities of products will be obtainable to meet client requirements. The logistics function involves getting the right products to the right place at the right time. In modern logistics, the scope of concern is considerably broader than transport and storage, incorporating all work associated with inventory positioning, which might include aspects of fulfilling form and ownership requirements as well. The other four functions are jointly referred to as facilitation, since their performance is essential to complete the trade and logistics activities.

Market Distribution Strategy Development

The marketing channel is one of the least acknowledged areas in a business strategy. The diversity and complication of channel arrangements make it hard to describe and simplify the challenges managers' encounter, while developing their supply chain strategy.

Marketing channels do not have consistent dimensions and frequently challenge simple description.

Some are very straight, linking manufacturers of a product directly to customers. Others contain various intermediate institutions with transfer of possession occurring a number of times. Complicating the topic is the fact that largely all firms are occupied in manifold channel arrangements, as they look for the most effective means to enter different market segments and gather the information about the segments they decide to serve.

Distribution Structure

While its simplicity is misleading, it serves to exemplify the main types of institutions that might be involved in the general process. Manufacturers are mainly involved in producing products. As the creators, they were customarily considered to be the inventors of channel arrangements and were usually the central point for channel discussions. However, complete channel study must include more than the producer's perspective. To do otherwise would incorrectly position wholesalers and retailers as inactive institutions.

In a lot of channel situations, retailers are influential; they lead in shaping how the overall distribution procedure will be organized *and* what the administration practices will be. As the organization closest to end customers, retailers have a large stake in the channel's performance. Wholesalers are less observable in the procedure, but their role in orchestrating and organizing the activities of several manufacturers with those of retailers must not be ignored. Understanding the roles of the numerous sorts of channel participants is decisive in embryonic market distribution strategy development.

Channel Participants

Primary channel participants are those companies that assume risk during the value-added distribution development. Below, the fundamental nature of every business type is reviewed:

Manufacturers

The procedure of combining components and materials into products is usually called **manufacturing** or **production.** Manufacturing businesses are highly-important channel participants, as they are the ones that produce and supply the goods that are the primary focus of the supply chain in its entirety.

Manufacturers take on significant risk with the formation of products. For instance, General Motors, Ford and Chrysler spend hundreds of millions of dollars on developing, testing, initiation of new styles and enhanced automobiles in general. Reputable producers assume full liability for the quality of their merchandise and their recognition by customers. The most noticeable manufacturers are those that produce customer products such as automobiles, food, appliances, pharmaceuticals, clothing, etc. These commodities, produced for mass utilization, often have heavily-advertised and exposed brands with high levels of customer identification. But in reality, these businesses represent just a small proportion of all companies involved in manufacturing.

The majority of manufacturing businesses produce machineries, subassemblies and components that are sold to other industry firms. Such business-to-business (B2B) selling is important to the overall performance of end- product manufacturing and distribution. It should be taken into account that while the degree of a manufacturer's risk in the overall distribution procedure is substantial, it is restricted to the particular products produced. Every specific manufacturer's products characteristically represent a small amount of those handled by the other main channel participants: wholesalers and retailers.

Wholesalers

Perhaps the least understood and least evident channel member is the **wholesaler.** Wholesalers are companies that are mainly engaged in buying goods from manufacturers and reselling to industrial users, retailers or business users. They might also act as agents in trading goods for or selling goods to companies. In 1997, there were more than 450,000 wholesale businesses in the United States with overall sales exceeding $4 trillion!

The main advantage of wholesalers is their specialty in performing product collection in a way that reduces costs and risks for other channel members. For many years in a lot of industries, it has been thought that acquisitions, mergers and continued concentration in both industrial and retailing sectors would abolish the economic validation of wholesalers. Yet in several industries, wholesaling continues to grow. Such businesses as Super Value, Sysco, True Value, McKesson, Grainger and many others maintain their viability with their unique capabilities in performing the assortment procedure for a large number of retailers and manufacturers. They do so by dropping risk, repetition of effort and the number of contacts necessary to meet customer requirements.

Retailers

Retail is the business of selling products and services to customers, who buy for their own utilization and benefit. In 1997, there were more than 1.1 million retail businesses in the US with total annual sales of more than $3.8 trillion. Ranging in volume and span, from such firms as Wal-Mart, Toys ‘R Us and Kroger to independently owned and operated stores, retailers are obviously the most visible channel member to consumers. They carry out functions that come together to offer their clients the right products, at the right place, at the right time, in the right amount and at the right price. The detailed strategies adopted by individual retail firms in delivering these values to customers differ radically and range from mass merchandising to discounting to determined service to super specialty and many others. Retailing is a lively and dynamic industry that continually changes, as firms search for ways to appeal to and provide consumers with what they want.

The retail strategy element of most concern to logistics operations is merchandise mixture. The investment in goods and resulting inventory risk assumed by retailers are extensive. The types and diversity of merchandise the retailer takes are defined by the specific customer wants and needs it wishes to satisfy.

Additionally, retailers make merchandise decisions regarding the depth of assortment, relating to different brands, sizes, colours and styles, etc. to be made available to consumers.

Along with decisions about fashion and quality level, these factors converge to shape retail decisions about supply and which delivery channels each retailer will include in their supply chain strategy. Thus, as large as Wal-Mart is, it is not a member in the supply chain of each potential supplier. Wal-Mart – and really all retailers - must cautiously craft supply chain relationships to efficiently and powerfully serve targeted consumers.

Market Coverage

Related to the idea of channel structure are the results concerning market exposure. Market exposure decisions involve options concerning the comparative intensity of outlets in any given area, so that the requirements of existing and possible customers are sufficiently accommodated. Specifically, market exposure is most openly related to location convenience for customers. Three essential market coverage options are:

1. Intensive distribution
2. Selective distribution
3. Exclusive distribution

Intensive Distribution

The assignment of a product in as many outlets or regions as possible is named **intensive distribution.** It is normally a logical option for products that customers purchase regularly and with the least required effort, making position ease a key buying for requirement. Such products include soft drinks, newspapers, candy, gasoline, and aspirin etc. - just a few consumer products that are distributed by this approach. For manufacturing end-users, items like office supplies, maintenance, repair and operating supplies (MRO) and other industrial items might be intensively distributed.

Indeed, it might seem that rigorous distribution is the most rational option for all products and brands. After all, having a product accessible in a lot of locations increases end-users and hence the possible sales as a result. Consider though what may happen to a manufacturer, such as Sony, if the choice was made to make use of intensive distribution.

Sony might expand the types and number of outlets for televisions to comprise all mass merchandisers, discount stores, maybe even supermarkets and drugstores, which often sell customer electronics. As the number of outlets develops, Sony might boost market share in the short run, but quite a lot of consequences could also be expected. Some outlets might decide to sell Sony televisions at quite low prices to draw customers to their stores. This, in turn, may cause other outlets to think again their choice to contribute in Sony's distribution channels. Some outlets are unable to provide the after-sales service level essential to support repairs and guarantees, aggravating problems for those that do operate such facilities. It is also probable that Sony would take on more contribution in marketing functions like advertising, since a lot of dealers who were once eager to promote Sony become unwilling to do so. While this discussion is tentative, it does illustrate the fact that intensive circulation is not the best option for all products.

Selective Distribution

The positioning of a brand or product in a more restricted number of outlets within a particular geographic region is called **Selective Distribution.** Of course, there can be many degrees of selectiveness employed. Again, the major factor driving the option is customer requirements for site convenience and customers' willingness to invest time in getting their required products. Sony televisions are selectively distributed and made available via most electronics and appliance stores, along with a restricted number of other outlets, which helps improve the brand's quality image and the level of support provision necessary for the brand.

Exclusive Distribution

Exclusive distribution is the opposite of Intensive distribution and is the placement of a brand in just one outlet in every geographic region. It is employed when customers or end users are ready to invest considerable shopping time/effort and location ease is of little interest to them. It is also used when a business wants to establish an image of high quality, like Rolex watches, or when extremely high levels of reseller hold-up are required. Thus, construction and farm tools, a number of household furniture brands, designer fashion apparel and similar products are exclusively distributed.

While certain kinds of products might seem to fit a specific market coverage option, generalizations can be deceptive. Companies choose which clients they will try to serve and that detailed segments, or even individual patrons, vary in their service requirements. Even in a product group such as candy, diverse choices have been made by competitive businesses. Lifesaver mints, for instance, are intensively distributed. Altoids, on the contrary, have more selective market coverage. Godiva is, for all realistic purposes, obtainable only through selected outlets. Lastly, it should be noted that channel structure and market coverage are directly related. Intensive distribution usually necessitates indirect channels involving numerous intermediaries, whereas high selectivity and exclusiveness might be supported through straighter channel structures.

Market Distribution Channel Design Process

The discussion of structure and distribution coverage focuses the need to know end-user requirements when making market distribution strategy. As a strategy is formulated, the particular channel plan must be defined. Two tools of importance here are channel mapping and a matrix approach to the design development.

These are explained below -

Channel Mapping

A **Channel Map** is essentially a flow illustration of the channels employed by a particular firm. It is developed through careful research within a business along with discussions with executives regarding how to reach the required marketplace. The purpose of mapping is to provide insight into existing processes and establish a blueprint for change. Prior to channel design being changed, or to choose whether change is suitable, a complete understanding of the present process is essential. Even when designing from scratch for a new business or a new product, mapping the business and major competitors can be helpful.

Developing a channel map must begin with clear depiction of the market segments to be served. Channel mapping does not end with building of a diagram. It should also comprise the requirement of the volume of activity linked to every link in the chain. For instance, what proportion of the entire volume goes to the institutions, military and consumers? Every link should also be inspected intensively, in order to determine the particular functions and activities carried out by the channel participants *and* what the financial characteristics of the transactions are. For instance, what are the expenses, prices and margins related to every link on the map?

Matrix Approach

A second approach used in channel design is an easy, yet successful, matrix approach. Because the majority of companies serve quite a few segments of customers and end users, diverse structures and blends of channel participants might be essential to serve each of those segments as economically and successfully as possible. The matrix approach involves extending the concept of separation discussed earlier in this chapter and provides insight into the most appropriate participants and structures to accomplish objectives.

Extending Channel Separation

The earlier discussion of separation demonstrated that marketing and logistics channels might involve different firms and no firm essentially has to participate in both. The matrix design extends this thought by suggesting that each function can be further subdivided into individual activities.

Every activity could potentially be carried out by diverse channel participants. For explanatory purposes, consider the selling role and its associated activities. Keep in mind that a similar approach could work for other functions.

Channel Relationships

Every firm is reliant on other firms for it to be successful in the marketplace. As such, dependence provides a helpful structure for understanding the kinds of behavioural relationships viewed in distribution. Three-channel categorizations are identified ranging from the least to most open expression of dependence: (1) single- transaction channels, (2) conventional channels and (3) relational collaborative arrangements (RCAs). True supply chain arrangements are categorized as particular forms of RCAs. Every form of channel involvement mirrors a different level of dedication by its participants.

Single-Transaction Channels

A lot of business transactions are discussed with the belief that the deal will be a one-time occurrence. Examples of single-transaction channels include stock ownership, real estate sales, bond ownership transfer and the acquisition of certain equipment, like heavy machinery and processing plants.

Conventional Channels

Conventional Channels are best described as movable arrangements or associations of firms that purchase and sell products on the basis of need, with no concern for future or repeat business. The major determinant of the time and extent of transactions is selling price. Firms concerned with a conservative channel develop working capabilities to offer services essential to complete their own primary business objectives. They have little or no loyalty to each other and little enthusiasm to jointly develop the effectiveness of the supply chain.

Activity in a conventional channel is carried out on a transaction-to-transaction basis. The typical deal is adversarial in that the intervention is price-dominated, creating an us–against-them posture. In other words, the involved firms do not intend to work out a formal long-term relationship; every party is free to walk out of the relationship whenever it decides to. Involvement continues only until a better deal comes along. In fact, it is not rare for firms to begin and end doing business with each other a number of times within a single year.

Relational Collaborative Arrangements

The characteristic trait of RCAs is that participating firms accept dependency and expand combined benefits through collaboration to attain industry superiority. To contribute in such systems, every channel member must be ready to perform specific duties.

In this approach, a range of forms of RCAs stand for relationship administration characteristic of supply chains. The general relationship of an RCA is classically orchestrated by a firm that is recognized as the leader. The leader is most often the leading firm in the channel in terms of size, market share or technical expertise. The firm that offers leadership usually has the greatest comparative authority in the arrangement.

While recognized dependency is the unified force in RCA arrangements, it also generates friction. Managers might feel that their firm is not receiving a reasonable share of the benefits or that they are being placed in a needlessly risky position. When possible or real conflict develops, it is necessary that it be resolute to preserve channel solidarity. For an RCA to have constancy the leader must diffuse conflict situations with focus on the long-standing interests of the entire channel. Finally, since RCAs are required to exist for a considerable time period, it is important that the leader provides a long-term vision, facilitates combined planning and alters administration as needed to maintain economic superiority.

In a wider sense, all channel systems that engage two or more self-governing firms have a degree of relationship arrangement. When relationships are formed to achieve shared goals and participating firms feel obligated to each other, the connection becomes a supply chain. Four forms of standard RCAs include: (1) administered systems, (2) partnerships and alliances, (3) contractual systems and (4) joint ventures.

Administered Systems

The least official RCA is the **Administered System.** Generally, a prominent firm assumes leadership accountability and seeks the collaboration of trading partners and service suppliers. On the part of the leader, it is necessary that decisions be made in a way that takes every channel participant's wellbeing into consideration. All channel members must see the relationship as equitable and fair.

With progressive leadership, an administered structure can be maintained over an extensive period of time. The firm providing leadership can function at any channel level; though most examples of administered systems are led by leading retailers.

Partnerships and Alliances

Many business arrangements are formed by the participating firms as **Partnerships.** At the very least, such companies build on the shared desire to work jointly; a process that normally involves an approach of working out differences and a lot of important information sharing.

An important and necessary trait of an **Alliance** is the readiness of participants to change essential business practices. If managers believe that overall business planning can benefit from best-proactive alteration and they are ready to change, then the association is a true alliance.

At its core, the alliance's objective is to build on the joint resources of the participating firms to enhance the quality, performance and competitiveness of the channel.

While partnerships are comparatively simple to find, the *right* alliances are trickier to identify. Quite a few high- profile alliances in the drug, building supply, garment, mass merchandise and food industries have recently gained widespread publicity. Developing alliances has appeal since they can expand and enhance the financial and market leverage of individual firms, without the need for financial investment.

Contractual Systems

As the name indicates, a lot of firms prefer to carry out business within the confines of an official contract. The most general forms of contractual agreements in terms of business relationships are dealerships, franchises and contracts between service specialists and their clientele. Commitment to a contract takes the business away from the purely voluntary collaboration that is feature of an alliance.

In place of pure collaboration, the contractual agreement establishes a set of lawful obligations.

Many firms prefer contracts as it provides them with guaranteed loyalty by making official and formalizing loyalty. In the case of a dealership or franchise, the official agreement serves as assurance concerning a firm's rights and responsibilities, in relation to signifying a service or product in a particular geographical area. The supplying firm is assured of conformance to particular ways of conducting business and that a necessary minimum purchase amount will be made. Dealerships and franchises are widespread in the marketing structure of the fast food and automotive industries.

Most contractual clauses are specifically focused on the execution of the logistical activities needed to complete division. For instance, one of the most general forms of RCA contracting entails for-hire transportation. The most ordinary contract between a shipper and carrier specifies the normal level of performance and determines the fee or rate to be paid for the service. A typical case would be a carrier's agreement to frequently provide a prearranged amount of a particular kind of equipment to a shipper. The shipper, in turn, might agree to load and place the equipment for competent line-haul pickup by the carrier. The agreement specifies the responsibilities of the participating parties and the discussed price.

The contract is a very important part of a lot of logistical arrangements. Because many logistics relationships need more capital investment, participating business shareholders and financial providers choose contractual agreements to control risk. Hence, some degree of contracting is normal throughout the entire range of relational arrangements.

Joint Ventures

Some distribution arrangements are just too capital-intense for growth by a single firm. So, two or more firms might choose to mutually invest in an agreement. The strictest **Joint Venture** involves two or more firms, united economically to make a new business entity. While such start-ups from scratch are not common, opportunities exist for future development.

The more expected joint venture situation happens when a shipper chooses to fully contract out all of its logistics requirements - including equipment, facilities and day-today operations - to a third-party or contract service provider. A logical way to organize this outsourcing is to set up a mutual venture between the shipper and service firm. The establishment of a company relationship where all organization groups participate serves to decrease risk, particularly when broad-based elite arrangements are necessary.

E-Commerce Impacts on Market Distribution

Perhaps no single subject has received as much attention in recent literature as the explosive growth of electronic commerce all over the world. Almost every day, articles come into view in the general, business trade and educational press regarding the number of businesses already using e-commerce, projections for the future and the fundamental change being created by electronic commerce.

Pricing and Logistics

Pricing is another facet of the marketing plan that directly interacts with logistical operations. The terms and conditions of pricing determine which party has accountability for performing Logistics activities. A key development in price strategy has been to de-package the price of products and materials so that services like transportation, which were usually included in price, are now recognized as separate items. Pricing practices have a direct impact on the timing and stability of logistical operations.

Pricing Fundamentals

Pricing decisions directly determine which party in the business is accountable for performance of logistics activities, way of title and liability. F.O.B. source and delivered pricing are the two most widespread methods.

F.O.B. Pricing

The term ***F.O.B.*** officially means ***Free on Board*** or ***Freight on Board.*** A number of variations of ***F.O.B.*** pricing are employed in practice. ***F.O.B. origin*** is the simplest means to quote price. Here, the seller shows the price at the point of origin and agrees to tender a consignment for transportation loading, but accepts no additional responsibility. The buyer selects the means of transportation, decides a carrier, pays transportation charges and takes responsibility for in-transit loss and/or spoilage.

In ***F.O.B. destination*** pricing, the title does not pass to the purchaser until the delivery is completed. Under such situations, the seller arranges for transport and the charges are added to the sales bill.

Delivered Pricing

The main difference between F.O.B. and ***delivered pricing*** is that in delivered pricing the seller provides a price that includes the transportation costs of the product to the buyer. In other words, the transport cost is not specified as a detached item. There are a lot of variations of delivered pricing.

Single-Zone Pricing

Under a single-zone delivered pricing scheme, buyers pay a single price regardless of where they are situated. Delivered prices classically reflect the seller's standard transportation cost. In real practice, a number of customers pay more than their reasonable share for transportation, while others are effectively supplemented with reduced costs. The United States Postal Service utilizes a single-zone pricing strategy all over the United States for first- class letters and parcel post. The same fee or postage rate is charged for a given size and weight, regardless of distance travelled to the destination.

Single-zone delivered pricing is usually used when transport costs comprise a comparatively small proportion of the selling price. The major benefit to the seller is high level of control over logistics. For the buyer, despite being based on averages, such pricing systems offer the benefit of simplicity.

Multiple-Zone Pricing

The multiple-zone pricing approach establishes diverse prices for particular geographic areas. The fundamental idea is that logistics charge differentials can be more moderately allocated when two or more zones - typically based on distance - are used to determine delivery pricing. Parcel carriers like United Parcel Service employ multiple-zone pricing.

Base-Point Pricing

The most complex and controversial type of delivered pricing is the employment of a base-point system, in which the final delivered price is decided by the product's list price plus transport cost from a chosen base point, generally the manufacturing location. This designated point is utilized for calculating the delivered price, whether or not the consignment actually originates from the base location.

Pricing Issues

Potential Discrimination

The validity of transportation pricing is a significant consideration and must be cautiously reviewed and managed, in order to protect against possible discrimination. The Clayton Act of 1914, which was altered by the Robinson- Patman Act of 1936, disallows price favouritism among buyers when practices "considerably lessen competition."

Zone pricing has the prospective to be discriminatory, since some buyers pay more than the genuine transportation cost while others pay less. Zone pricing schemes are against the law when the net consequence is to charge dissimilar delivered prices for the same products to direct competitors. In current years, determination of the validity of delivered zone pricing systems has revolved around the topic of whether a "seller acts separately and not in involvement with competitors." The Federal Trade Commission is not likely to take action unless there is direct proof of such activities.

Quantity Discounts

Quantity discounts are usually offered by a firm as an incentive to boost order size, or its overall volume of business. To be non-discriminatory, the same discount arrangement must be obtainable to all buyers. Under the Robinson-Patman Act, it is the responsibility of the seller to show that the same, noncumulative discounts are accessible to all capable buyers. The capacity discount offered must be justified on the basis of direct cost savings.

The Robinson-Patman Act says that cost differences can be reasonable on the basis of savings in the production, delivery and/or selling of goods. Quantity-related discounts which are based on decreases in manufacturing or selling costs are hard to prove. Logistics-related savings are comparatively easy to file since lots are shipment specific. Transportation and handling savings are frequently used to rationalize quantity discounts; thus, lower transport rates for volume shipments are widespread.

In contrast to non-cumulative discounts; cumulative discounts are based on consecutive purchases over any specified time period and are more difficult to justify. Cumulative discounts, by their very nature, favour large- volume purchasers while discriminating against smaller buyers. However, price discrimination can be proved only when potential or actual damage/harm to competition is identified.

Promotional Pricing

A final feature of pricing that puts pressure on logistical operations is the employment of short-term promotions to provide incentives for purchases. Firms that follow aggressive promotional strategies have the option of tayloring their budgets to encourage consumers (via coupons) or wholesalers and retailers (via trade allowances) to buy their products.

For instance, Procter & Gamble has a yearly advertising and promotional financial plan that exceeds $2 billion. Marketing administration must split these funds between media advertising focused on consumers and a mixture of coupons and deal promotions. Allocating finances for promotional campaigns encourages the buying of P&G products and leads to two outcomes. First, the logistics systems of Procter & Gamble and its consumers must hold augmented product volume before, during and oftentimes in the immediate time after a promotional period. Secondly, trade endorsement spending decreases the effective price at which the product is being sold. From a logistical viewpoint, the short-term boost in volume is the main priority. Thus, while final consumption may not show migratory characteristics, the logistical process might have to deal with ***seasonal surges*** triggered by promotional pushes.

In an effort to simplify and smooth promotional pricing, some businesses have begun the expansion of synchronized programs. Manufacturers and retailers working together can discuss ***net prices*** that are administered over a particular time period. The manufacturer and retailer together plan the advertising and promotion strategy for a product or merchandise category. A ***dead net price*** is decided that takes into account quantity buy discounts, quick payment discounts and any other appropriate price incentives. Ultimately, an agreement is reached about the time-period for the negotiated price. These agreements also state how performance will be calculated during the functioning period, as a basis for future agreements.

Menu Pricing

From a seller's viewpoint, a pricing program must be able to precisely and justifiably charge clientele for the products and services that they require. Menu pricing is a method used by several firms to achieve this objective. A workable menu pricing scheme has three components: platform service price, value-added service specified costs and efficiency incentives.

Platform Service Price

The biggest step in menu pricing is establishing the basic service platform to be offered to all customers and an appropriate price reflecting the costs related to providing that service level. The platform service price is expected to be paid by all customers, whether or not they need the full service package as specified.

Value-Added Service Costs

The second feature of menu pricing involves clarifying charges for agreeing to the customer's requested additional activities. This method results in every client paying for the particular grouping of services required.

Further Reading:

- ✓ ***The Essentials of Supply Chain Management: Theory and Applications, Kindle Edition, (2020), By Hokey Min***
- ✓ ***The Essentials of Supply Chain Management: New Business Concepts and Applications (FT Press Operations Management) 1st Edition, (2015), By Hokey Min***