Physical Distribution System

Meaning of Physical Distribution

Physical distribution is an important marketing function describing the marketing activities relating to the flow of raw materials from the suppliers to the factory and the movement of finished goods from the end of production line to the final consumer or user. Marketing agencies such as dealers, merchants and mercantile agents manage the flow of goods and perform the function of physical supply—right up to the consumer's homes and stores.

Physical distribution function is responsible for completing the marketing transaction once the function of exchange is completed, i.e., buyer and seller come to terms and enter into a contract of sale. It should be noted that before the sale can be completed, the product must be available at the place the buyer wants it, at the time he wants it, and in the quantity he wants. In general, the function of physical supply attempts to accomplish the delivery of goods at the right place, at the right time and in the right quantity.

Definitions of physical distribution

- According to Philip Kotler, physical distribution "involves planning, implementing and controlling the physical flows of materials and final goods from place of production to the place of end use to satisfy buyers' needs."
- According to W.J. Stanton – "Physical distribution involves the management of the physical flow of products and the establishment and operation of flow system."
- According to Cundiff and Still – "Physical distribution involves the actual movement and storage of goods after they are produced and before they are consumed".

Objectives/Importance of Physical Distribution

The main objectives can be stated as under:

1. To Ensure Consumer Convenience:

It is the primary objective of physical distribution. The right kind of distribution can increase consumer convenience. They can buy the product as per their needs at any time from the convenient place, even at reasonable price. Similarly, middlemen involved in physical distribution, who sell products of various companies, can offer consumers a chance to select the most suitable products. Smooth and continuous flow of goods can add to total consumer satisfaction.

2. To Facilitate Continuous Production:

Distribution is directly beneficial to producers. Continuous production contributes a lot to distributors, consumers, and society at large. An efficient distribution network facilitates continuous production because of sophisticated storing facility, rapid means of transportation and communication, access to global market, advance ordering, buying incentives to sell in off--seasons, rapid ordering and executing, etc.

3. To Achieve Economy:

To economize distribution is one of the objectives of physical distribution. A suitable distribution system results into lowering overall costs in a number of ways. Speedy order processing, availability of the latest transportation and communication, benefits of scale of economy, rapid sales turnover, insuring the products, and many other similar benefits lead to low costs, and ultimately low selling price.

4. To Reduced Degree of Damage/Wastage:

A company can reduce product damage that takes place during storage, transportation, and handling. Also, availability of insurance at a lower premium can reduce considerable risk during storage and transportation. Use of cold storage, rapid and safe means of transportation, and other facilities relating to distribution can reduce damage or wastage of product. Reduced damage and better quality significantly contribute to success of product.

5. To Increase Competitiveness:

Today's market is characterized by cut-throat competition. All sellers are fighting for better offers to their consumers. A company can increase its competitive strengths by a systematic

distribution network. Many companies can distinguish their offers by availing products differently than competitors. Effective distribution affects positively to services, availability, timing, price, and similar benefits. Undoubtedly, if all the components of distribution work effectively, physical distribution can be a powerful means to fight with competitors.

6. To Lower Idle Stocks:

This objective relates with inventory control. Producers and distributors can minimize reordering size or safety margin by effective distribution system. Due to speed and precision in placing and executing orders, and advanced ordering by distributors, they are not required to maintain more stock of the finished products. This facility can reduce overall inventory costs and need of working capital.

7. To Ensure Continuous Availability:

This objective concerns with offering direct benefit to consumers. Due to wide availability of products, consumers are not required store the essential commodities. They can buy the right quantity as and when they need. It leads to several benefits to consumers.

8. To Achieve Rapid Turnover of Stock:

Physical distribution is also targeted to speed up turnover of stocks. From investment of cash in raw materials to realization of cash through the sales of finished can be speeded up. Stocks can be speedily converted into cash. So, the duration of working capital cycle can be reduced, and need of working can be minimized.

Decision areas of physical distribution system

1. Materials Handling:

It involves moving products in and out of a stock. It consists of routine tasks that can be performed through mechanisation and standardisation. Efficiency is increased through use of electronic data processing to control conveyor systems, order picking and other traffic flaws.

The modern mechanised handling services and protective packaging have improved the level of customer service and at the same time lowered physical distribution costs. Material handling and packaging services have also speeded up the order processing and movement of consignments.

2. Inventory Planning And Control:

Inventory refers to the stock of products a firm has on hand and ready for sale to customers. Inventories are kept to meet market demands promptly. Inventory is the link interconnecting the customer's orders and the company's production activity.

Infact the entire physical distribution management rotates around the inventory management. Inventory management is the heart of the game of physical distribution.

Marketing managers undertake an inventory planning to develop adequate assortments of products for the target market and also try to control the costs involved in obtaining and maintaining inventory.

Marketing managers generally take three decisions while conducting inventory management, viz, (i) how can the track be kept, on a day-to- day basis of location, amount and the condition of the inventory? (ii) How can inventory information best be channelled to production managers or buyers for resale to help them schedule their activities? (iii) What inventory information can other departments in the organisation use to help them perform their functions efficiently?

3. Order Processing:

Order-processing and inventory control are related to each other. Order processing is considered as the key to customer service and satisfaction. It includes receiving, recording, filling, and assembling of products for dispatch. The amount of time required from the dates of receipt of an order up to the date of dispatch of goods must be reasonable and as short as possible.

It comprises in undertaking the processes that are needed to make certain orders processed quickly, accurately, and efficiently. The marketing manager has to decide about these along with such issues as what is the most efficient way to bill customers; how cans the paper work may be minimized? And how can the physical function of assembling orders more efficiently?

4. Transportation:

It is an essential element of physical distribution. It involves integrating the advantages of each transportation method by adopting containers and physical handling producers to permit transfers among different types of carriers.

For example, to place containers in railway flat cars and then load the containers on motor vehicles is called "piggy back" and if the containers are off loaded to water carriers, it is called "flash back." Exchange of containers between air and truck carriers are referred to as "Air truck" or "birdy back".

The marketing manager has to decide to (i) what mode or combination of modes of transportation (rail, truck, pipeline, water ways or air) should be used to transport products to warehouses and from there to customers? (ii) Should the transportation cost be reduced and the desired levels of customer service still maintained.

5. Communications:

It is a process of passing information and understanding from one person to another. This includes the information system which should link producers, intermediaries, and customers. Computers, memory systems, display equipment and other communication technology facilitate the flow of information among other members in the channel.

A manager to be successful must develop an effective system of communication. So that he may issue instructions, receive the reactions of the subordinates, and guide and motivate them.

6. Organizational Structure:

The person in charge of the physical distribution should co-ordinate all Activities into an effective system to provide the desired customer service in the most efficient manner. Examples of organizational consideration are: (i) How can the five elements of physical distribution best be coordinated so that a team effort results? How can compartmentalization thinking be avoided? (ii) If a central head is established to direct all physical distribution activities, to whom should he report—The Head of the Marketing or The Chief Executive Officer?