

Distribution management is the management of materials and processes associated with incoming and outgoing products. The goal of distribution management is to ensure that products are handled, stored, and transported in an organized, safe, and cost-effective way.

DISTRIBUTION CHAIN OR CHANNEL

A distribution chain (or distribution channel) is a series of steps through which products flow into or out of a business. A typical distribution chain begins with a manufacturing business producing a product. That product is sold to a wholesaling business and then resold to a retailing business. Each business is a link that serves a specific purpose in the chain. The price of a product increases as it goes along the distribution chain. A markup is a price increase imposed by each link in the chain. For example, manufacturers set a price based on their expenses and desired profit. Wholesalers pay that price and then set a higher price to cover their costs and to earn a profit. Retailers then add a markup to cover their costs and to earn a profit. These markups can be substantial. The price of a product in a retail store is typically much higher than the original manufacturer's price.

TRANSPORTATION

Transportation of goods is a vital service in any distribution chain. Most goods are not manufactured and sold to consumers in the immediate area. Some goods travel vast distances, even around the world, to reach their final buyers. Logistics is the handling and organizing of materials, equipment, goods, and workers. Transportation logistics is complex for some businesses, particularly larger ones. Goods can be transported by ship, airplane, train, or truck. Distribution managers make transport decisions based on the cost and scheduling needs of their companies and their clients.

SHIPPING AND RECEIVING

Most large businesses have a department devoted to the shipping and receiving of goods. A shipping department handles outgoing goods. These are goods moving to the next link in the distribution chain or to final buyers. A receiving department handles incoming goods. These are goods sent to the business by suppliers. In a small business, one individual may handle all shipping and receiving duties. Whatever the size of the business, it is vitally important that incoming and outgoing shipments are monitored and tracked carefully and that accurate records are kept. The products in incoming shipments should be checked against purchase invoices to ensure that everything has been received as ordered and is in good condition. Outgoing shipments should also be checked to ensure that orders have been properly filled.

STORAGE AND WAREHOUSING

Many products do not flow immediately along a distribution channel. They spend time in storage at each link along the way. Manufacturers and wholesalers may have large inventories in storage. These businesses commonly operate warehouses, which are large buildings devoted to storing goods. Small businesses may not have warehouses but typically have some area set aside for storage. Stored goods must be kept safe from damage or theft and organized to be easily accessible when it is time for them to be shipped out.

MATERIALS HANDLING

Materials handling is a task of concern at every link in a distribution chain. All businesses in the chain must ensure that products are handled carefully, to prevent damage or loss. Lost or damaged products represent lost profit. Care must be taken whenever products are handled by people or equipment. Products should be treated carefully and moved and stored in accordance with specific procedures. Materials handling involves more than the safety of the products. It is also concerned with moving them in an orderly, efficient, and cost-effective manner.

DELIVERY TERMS

Large products and large-shipment orders are considered freight, meaning that they are transported by large trucks, trains, or ships. Manufacturing and wholesaling businesses use specialized terms to describe their freight-delivery options. One of these terms is "free on board." Free on board is a delivery term that is followed by a word or group of words that identify a specified location at which the ownership responsibility for the shipment switches from the seller to the buyer. Free on board may be abbreviated as F.O.B., FOB, fob, or f.o.b. For example, a wholesaler in Chicago may use the delivery term "FOB Chicago."

Think Critically

1. Describe a typical production chain for a product.
 2. What is logistics?
 3. Explain the difference between a shipping department and a receiving department.
 4. Give some tips for handling goods when they are moved and stored.
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Multiple Choice

1. ____ In planning your distribution strategy, it is important to (a) keep customer convenience in mind, (b) establish a position in the market, (c) order goods over the Internet, (d) all of these.
 2. ____ Intermediaries in the distribution channel include (a) manufacturers, negotiators, and consumers, (b) negotiators, retailers, and consumers, (c) agents, wholesalers, and retailers, (d) manufacturers, sellers, and consumers.
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True/False

1. ____ Channels of disbursement are the routes that products and services take from the time they are produced to the time they are consumed.
2. ____ Physical distribution of a product includes storage, handling, and packaging within a channel of distribution.
3. ____ A direct channel of distribution often uses several intermediaries.
4. ____ An indirect channel uses agents and public relations personnel as intermediaries.