Unit 1

MARKETING

Unit Outcomes

At the end of this unit, students will be able to:

- understand the concepts of marketing and market.
- appreciate and determine marketing functions.
- recognize marketing mix.

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Introduction

Marketing completes the basic mission of an economy. It tries to identify the needs and wants of customers. Marketing avails products of a company at the right time, moves goods to the appropriate place and tries to determine the market size, converts the heterogeneous market into homogeneous through market segmentation. Marketing approaches the market with distinct marketing mix.

The role of marketing in society is significant. Have you ever gone to your nearest market? What did you do? Did you buy products? Why did you buy the product? Did you sell any thing? Did you communicate with the seller? Did the seller force you to buy his product? Answer to these questions will help you to understand how marketing plays important role to satisfy your needs and wants.

Contents of the unit

In order to be able to achieve the above learning outcomes, students will learn the following topics in this unit.

- Definition of marketing
- Markets and types of markets
- The major marketing functions
- The marketing mix
- Marketing management

1.1 What is Marketing?

- ***What do you understand about marketing and its economic role?***

Although marketing contains many functions, marketing always begins and ends with customer. After identifying the basic needs and wants of its customers, marketing tries to fulfil marketing needs and wants better than the competitors. As a field of study, marketing has been defined by various authors in different purposes. But for this purpose,

Marketing is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

To explain this definition further, let us define the basic concepts involved in the process of marketing.

Needs and Wants: Think about what you really need: food, shelter, clothing, friend, love, knowledge, to stand first in your class, or to be a doctor, or musician. All these are your needs. **Needs are very basic things that are essential to your physical, psychological, and social-well being.** When your needs are not met or satisfied, you feel deprived and are highly motivated to change the situation.

Your **wants** are based on your needs, but they are more specific. When you are hungry, you need food, but you may want "kitfo" or "doro wat", or hamburger depending on your experiences, culture, and personality or any other factor. In developed countries, people have many choices. But in poor countries, like ours, we have limited choices. Producers do not create needs, but they do shape our wants by providing many alternatives. If producers are accurate in assessing our wants and needs, they will provide the products that are most satisfying to us. If they do not know needs and wants of customers, it will be difficult for them to sell their products.

Exchange and transaction: How do marketers know what to produce? How can they be sure that their offerings will satisfy our wants and needs? In a market economy, the exchange process is the mechanism that enables producers to identify consumer preferences. When we trade something valuable (usually money) for something else such as goods or services, we vote for that item; the producer of the item is encouraged to make more of them. In this way, supply and demand are balanced, and society obtains the goods and services that are most satisfying.

For exchange to take place, there are certain conditions. At least two parties (seller and buyer) must participate. Each party must have something of value to the other

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such as product or money. Each party also must want to deal with the other party. Each must be free to accept or reject the other's offer. Finally, each party must be able to communicate and deliver the product or money.

When the exchange actually occurs, it takes the form of a **transaction.**

For example, Abebech gives Fatuma Birr1.50 and gets pen in return. A trade of value takes place. There are also some conditions in transaction. It involves at least two things of value (product and money), agreed-upon conditions, a time of agreement, and a place of agreement.

Product: People satisfy their needs and wants with products. Product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, heritage, hospitality, and ideas. But, for convenience, we classify offers as goods and services but collectively as product.

Customer Value: Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product.

Customer Satisfaction: Customer satisfaction depends on a product's perceived performance in delivering value relative to a buyer's expectations. If the product's performance falls short of the customer's expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If performance exceeds expectations, the buyer is delighted.

Activity: 1

- **Define marketing and the basic concepts used in your definition using your own words.**

1.2 What is Market?

- ***What do you know about markets? How do you determine the size of a market?***

The concept of exchange leads to the concept of a market. A market is the set of actual and potential buyers of a product. Market is a mechanism that brings buyers and sellers of a product together. Market consists of group of organizations and /or individuals who may want the product offered by the seller and who have the requisite purchasing power, the willingness to spend resource to buy the product, and the authority to make such an expenditure.

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We may say that a certain market is big or small. The size of a market depends on the number of people who exhibit the need, have resources to engage in exchange, and are willing to offer these resources in exchange for what they want.

Markets are broadly classified as **consumer and industrial markets**. **Consumer markets** consist of purchasers and/individual household members who intend to consume or benefit from the purchased products and who do not buy products to make profits.

Industrial markets or also known as **business-to-business markets** are grouped broadly into producer, reseller, governmental, and institutional categories. These markets purchase specific kinds of products for use in producing other products, for resale or for day-to-day operations.

Producer markets consist of individuals and business organizations that buy certain products to use in the manufacture of other products.

Reseller markets consist of intermediaries such as wholesalers and retailers that buy finished products and sell them for a profit.

Government markets consist of Federal, Regional, Zonal, Woreda and Municipality Governments. They buy goods and services to maintain internal operations and to provide citizens with such products as highways, education, water, energy, police, national defence and the like.

Institutional markets include churches, not-for-profit schools and hospitals, teacher's associations, labour unions, foundations, human right group, fraternities, charitable organizations. The goals of such organizations are different from business organizations.

Activity: 2

- **Define market and explain the different types of markets.**

1.3 Major Marketing Functions

- ***What functions do marketing process perform?***

The marketing process involves eight major functions and numerous related activities. All these functions are essential if the marketing process is to be effective. These functions are broadly classified as exchange, physical distribution and facilitating functions.

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1.3.1 Exchange Functions

All companies manufacturers, wholesalers, and retailers – buy and sell to market their merchandise.

1. **Buying** includes obtaining raw materials to make products, knowing how much merchandise to keep on hand, and selecting suppliers.
2. **Selling** creates possession utility by transferring the title of a product from seller to customer. Possession utility is created by transferring title or ownership of a product to the buyer.

1.3.2 Physical Distribution Functions

These functions involve the flow of goods from producers to customers. Transportation and storage provide time and place utility, and require careful management of inventory.

1. **Transporting** involves selecting a mode of transport that provides an acceptable delivery schedule at an acceptable price.
2. **Storing** of goods is often necessary to sell them at the best selling time. **Storage and warehouses** are sometimes used interchangeably. However, they are different. Warehouses are used as a temporary custody for finished goods. But, storage is a place for keeping production inventory at perfect state until required for production. An obvious reason for storage of finished goods is to have products available whenever the customers want them. A surplus in one market must be stored until transportation facilities take it to a more scarce market. There are two types of storage operations. One kind of storage equalizes the seasonal production to the pattern of demand. The other is the storage at all times which is necessary to keep the marketing system operating and other places of mass accumulation for wholesalers and retailers.

1.3.3 Facilitating Functions

These functions help the other functions take place. These are not basic functions of marketing, but essential to the other functions.

1. **Financing:** helps at all stages of marketing. To buy raw materials, manufacturers often borrow from banks or receive credit from suppliers. Wholesalers may be financed by manufacturers, and retailers may receive financing from the wholesaler or manufacturer. Finally, retailers often provide financing to customers.

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2. **Standardizing and Grading: Standardizing** sets uniform specifications for products or services in terms of colour, size, chemical characteristics, quality etc. **Grading** classifies products by size and quality, usually through a sorting process. Grading is very common for agricultural, textile, leather products. Together, standardization and grading facilitate production, transportation, storage and selling.
3. **Risk taking:** Risk is the possibility of loss. Even though competent management and insurance can minimize risks, risk is constant reality of marketing because of such losses as bad-debt expense, obsolescence of products, theft of product by employees, flood, earthquake, war, criminal acts of others and product liability suits due to defective products, misleading advertisement etc.,
4. **Gathering market information:** Information is necessary for making all marketing decisions such as price, product, promotion, distribution and the like. Management must make marketing decisions based on accurate information.

Activity: 3

- **Form a group of five to ten students in your class. And then list the basic marketing functions in any organization that are necessary to satisfy the needs and wants of customers and identify typical examples of each function from your area.**

1.4 Marketing Mix- Overview

- ***What are the basic marketing variables that marketing managers can manipulate in the course of their managerial activities?***

Marketing mix can be defined as the mixture of controllable variables such as product, price, place and promotion that can be manipulated by the management of the organization. In other words, the marketing mix consists of the way in which the various component parts and techniques of the marketing effort are combined and varied in order to achieve marketing objectives. The basic ingredients of the marketing mix are: product, place, price and promotion. The overview of the marketing mix elements are given as follows.

Figure 1.1 Marketing mix

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Product: As previously stated, products are solutions to customers' needs. The provider needs to make various product decisions, including functionality, range offered, brand names, packaging, service and support. The product is normally the critical element in the mix, with all other decisions relating to this element.

Price: This element determines what a provider is paid. Various price setting models exist with decisions relating to factors like market penetration, credit terms, discount policy and cost of provision.

Place: Place is perhaps more readily described as distribution. It is about making the product available. Some form of structured network is normally required – a distribution channel. However, true marketing power may lie with the control of this channel as opposed to control of the product. For example, large supermarket chains can largely determine which goods are made available to the consumer.

Promotion: The promotional element of the mix provides communication with the desired customer group. A range of mechanisms can be deployed for this purpose: advertising, public relations, direct mail, Internet marketing, selling and sales promotion. The blend of methods is often referred to as the communications mix. Generally, promotion aims to make a target market aware of a product offering, develop a long-term relationship with the customer and create and stimulate demand. The effect of promotional techniques can be difficult to evaluate and organizations need clear aims and goals to obtain maximum benefit from a promotional budget.

1.4.1 Product

- ***Can you mention some products that are familiar to you?***

What is a product? A product is a bundle of physical, service and symbolic attributes designed to produce consumer want satisfaction. Product elements include quality /features, options/ style, brand name, packaging /sizes, service, warranties/ returns. To further understand the nature of products, it is better to see the classifications of goods.

Classifications of various types of goods

Generally, goods can be classified into two major groups; namely consumer and business goods [industrial goods]

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Consumer goods: Consumer goods are intended for use by household consumers for non-business purposes, and can be broken into four categories – convenience goods, shopping goods, specialty goods and unsought goods.

1. **Specialty goods** are goods with unique characteristics and / or brand identification, for which a significant group of buyers are habitually willing to make a special purchasing effort. Buyers have a strong brand preference and are willing to spend extra time and effort in buying them. Usually manufacturers can utilize fewer retail outlets, which the manufacturer deals with directly. Advertising is often carried out on a co-operative basis.

   Some examples could be specific brands and types of cars, hobbies equipment, photographic equipment, computer equipment, or men's suits. A sports car or racing car is a specialty good if potential buyers are willing to travel to the few dealers. Specialty goods do not involve shopping comparisons; the buyer only invests shopping time to reach the outlets carrying these goods. The seller of a specialty good does not necessarily have to be established in a convenient location; however, it is important that prospective buyers receive information as to this location.

2. **Convenience goods** are those that the consumer has adequate knowledge of the particular product wanted before going out to buy it. The product is purchased with a minimum of effort, and usually the advantages of shopping around to compare price and quality are not considered worth the extra time and effort required. Consumers are willing to accept any of several brands and will buy the one that is most accessible. Goods in this category include groceries, tobacco products, inexpensive confectionery, pharmacy items such as toothpaste and hardware items such as light bulbs and batteries. Convenience goods typically are purchased frequently, have a low unit price, are not bulky and are not greatly affected by fad and fashion.

3. **Shopping goods** are products for which customers usually wish to compare quality, price and style in several stores before making their purchase. Goods in this category include women's apparel, furniture, major appliances and cars. Usually these goods are sold direct to the store by the manufacturer with no wholesalers involved. The name of the store is often more important than the brand of the goods.

4. **Unsought goods** fall into two categories - new products that consumers are not yet aware of (e.g. video telephones, talking computers) and products that the

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consumer does not currently require such as insurance. Sellers and marketers of this category of products face significant advertising and selling barriers.

Business products [industrial products]: Business products are intended primarily for use in producing other products or for providing services in a business. They are raw materials, fabricating materials and parts, installations, accessory equipment and operating supplies.

1. **Raw materials** are business goods that will become part of another physical product, and include goods in their natural state such as minerals, land and products of the forests and the seas, as well as agricultural products such as wheat, cotton, fruits, vegetables, livestock and animal products like eggs and milk.
2. **Fabricating materials and parts** include pig iron being converted to steel, yarn being woven into cloth, and flour becoming part of bread. To ensure adequate and timely supply, buyers usually purchase in large quantities and may place orders twelve months or more in advance. These goods are usually marketed direct to the user.
3. **Installations** include long-lived, expensive, major equipment of a business user, such as generators, industrial buildings, railway engines and aircraft. High levels of personal selling by skilled staff are usually involved with no use of intermediaries. Often the product is supplied to the buyer's detailed specification, involving much pre sale and post sale servicing.
4. **Accessory equipment** is used in the production operations of a business, and includes items such as cash registers, small power tools, forklift trucks and computers. These goods are usually sold by intermediaries.
5. **Operating supplies** are the 'industrial goods' of the business sector. They are short-lived, low price items usually purchased with a minimum of effort, and aid a firm's operations but do not become part of the finished product. Examples include lubricating oils, pencils and stationery and cleaning supplies.

Product Life Cycle (PLC)

The product life cycle (plc) depicts graphically a product's sales volume from introduction to the market to its withdrawal from the market.

Like human beings, products also have their own life-cycle. From birth to death human beings pass through various stages e.g. birth, growth, maturity, decline and death. A similar life-cycle is seen in the case of products. The product life cycle goes

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through multiple phases, involves many professional disciplines, and requires many skills, tools and processes. The stages include introduction, growth, maturity and decline. The features of these stages are given in the following table.

Table 1.1 The four main stages of a product's life cycle and the accompanying characteristics

Stage	Characteristics
1. Introduction stage	1. costs are very high 2. slow sales volumes to start 3. little or no competition 4. demand has to be created 5. customers have to be prompted to try the product 6. makes no money at this stage
2. Growth stage	1. costs reduced due to economies of scale 2. sales volume increases significantly 3. profitability begins to rise 4. public awareness increases 5. competition begins to increase with a few new players in establishing market 6. increased competition leads to price decreases
3. Maturity stage	1. costs are lowered as a result of production volumes increasing and experience curve effects 2. sales volume peaks and market saturation is reached 3. increase in competitors entering the market 4. prices tend to drop due to the proliferation of competing products 5. brand differentiation and feature diversification is emphasized to maintain or increase market share 6. Industrial profits go down
4. Decline stage	1. costs become counter-optimal 2. sales volume decline or stabilize 3. prices, profitability diminish 4. profit becomes more a challenge of production/distribution efficiency than increased sale

The graphical representation of the product life cycle is shown in Figure 1.2.

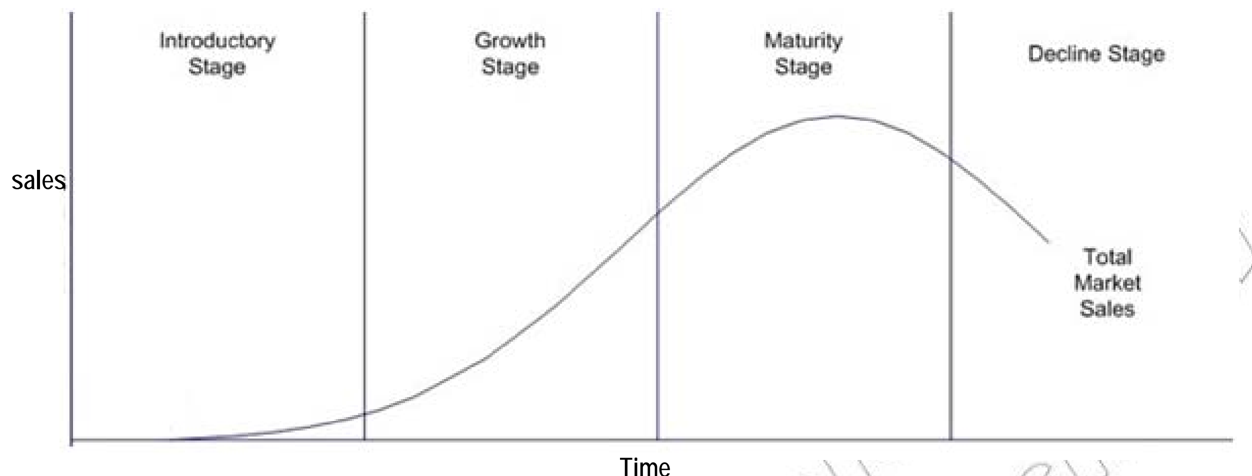

Figure 1.2 Product Life Cycle

Duration of stages: Some would argue that the length of each PLC phase is closely related to marketing decisions and not simply a natural cycle. Effective marketing should be able to extend and sustain the growth or maturity of a product offering. Equally, ineffective marketing would hasten its decline.

Activity: 4

- **Discuss the trends of profitability of a product under the different stages of PLC.**

1.4.2 Price

All profit making organizations and many non-profit organizations must set prices on their products or services. Price goes by many names: rent for house, tuition for education, and a fee to physician or dentist, fare for taxi, interest for money, premium for insurance, honorarium for guest lecturer, dues for trade association, salary for an executive, commission for a salesperson, wage for a worker, bribe for a bureaucrat etc.

In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product or service.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible elements of the marketing mix as it can be adjusted easily. The following subtopics discuss price and non-price competition, pricing objectives and the different approaches to pricing.

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The Meaning and Use of Price

As we have mentioned before, value is given up and received through the marketing process. Price is the exchange value of a good or service in the market place. We tend to think of price as set of amount of money that can be exchanged for particular product at given time and under given circumstances. Yet; a good or service can also be exchanged for a different product through trading or bartering. At times the price results from negotiations between buyer and seller. But in many business situations, the seller fixes the price.

Product, place, and promotion create value for buyers and result cost to the marketer. In contrast, price captures value from buyers of the firm. It is how the firm recovers its costs for other parts of the marketing mix.

Price thus serves as the function of allocater. First, it allocates goods and services among those who are willing and able to buy them. It answers the basic economic question of for whom to produce? That depends on prices. Second, price allocates financial resources (sales revenue) among producers according to how well they satisfy customers' needs. And third, price helps customers to allocate their own financial resources among various wants satisfying products.

Price and Non-price Competition

Before the price of a product can be set, an organization must decide on the basis on which it will compete—on the basis of price alone or some combination of the factors. The choice influences pricing decisions as well as other marketing mix variables.

Price competition occurs when a seller emphasises the low price of a product and sets a price that equals or beats competitors' prices. To use this approach most effectively, a seller must have the flexibility to change prices often and must do so rapidly and aggressively whenever competitors change their prices. Price competition allows a marketer to set prices based on demand for the product or in response to change in the firm's finances. Competitors can do likewise, however, which is a major disadvantage of price competition. They, too, can quickly match or outdo an organization's price cuts. In addition, if the circumstances force a seller to raise prices, competing firms may be able to maintain their lower prices.

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Non-price competition is based on factors other than price. It is used most effectively when a seller can make its product stand out from competition by some unique features. These include product quality, customer service, promotion, packaging, or other features. Buyers must be able to perceive these distinguishing characteristics and consider them desirable. Once customers have chosen a brand for non-price reasons, they may not be as easily attracted to competing firms and brands. In this way, a seller can build customer loyalty to its brand.

Pricing Objectives

Before setting prices for a firm's products, management must decide what it expects to accomplish through pricing. That is, management must set pricing objectives that are in line with both organizational and marketing objectives. Of course, one objective of pricing is to make profit. But this may not be a firm's primary objective. One or more of the following factors may be just as important.

Survival: A firm may have to price its products to survive either as an organization or as a player in a particular market. This usually means that the firm will cut its price to attract its price, even if it then must operate at a loss. However, such a goal can hardly be pursued on a long-term basis, for consistent losses would cause the business to fail.

Profit maximization: Many firms may state that their goal is to maximize profit, but this goal is impossible to define or to achieve. What, exactly, is the "maximum profit"? How does a firm know when it has been reached? Firms that wish to set profit goals should express them as either specific Birr amounts or percentage increases over previous profits.

Market share goals: A firm's market share is its proportion of total industry sales. Some firms attempt, through pricing, to maintain or increase their share of the market. To gain market share, firms will set price as low as possible.

General Approaches to Pricing

The three major approaches to pricing are the cost-based approach, the buyer-based approach and the competition based approaches.

Cost-Based Pricing

Cost-plus Pricing: The simplest pricing method is cost-plus pricing- adding a standard mark up in the cost of the product.

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Procedure: To understand mark-up pricing, you must understand the steps followed by a firm when using the technique:

- Estimate the sales volume;
- Estimate product unit cost at the estimated sales volume;
- Determine the mark-up rate to be used;
- Calculate unit-selling price by applying the mark-up rate to the product cost.

Example: Price the following product using straight mark-up pricing:

Given:

Estimated Sales Volume = 1,000 units
Estimated Unit Cost = Birr80
Mark-up Rate = 20%

Calculate Unit Selling Price:

Unit Selling Price = Cost + (Mark-Up Rate x Cost)
= Birr 80 + (0.20 x Birr80)
= Birr 80 + Birr16
= Birr 96

Breakeven Analysis and Pricing: Setting price to break even on the costs of making and marketing a product.. Break-even point is a point in a graph or mathematical model where cost equals revenue. For any product, the **break even quantity** is the number of units that must be sold for the total revenue (from all units sold) to equal the total cost (of all units sold). **Total revenue** is the total amount received from the sales of a product. We can estimate projected total revenue as the selling price multiplied by the number of units sold.

The costs involved in operating a business can be broadly classified as either fixed or variable costs. A **fixed cost** is a cost incurred no matter how many units of a product are produced or sold. Rent, for example, is a fixed cost. It remains the same whether 1 unit or 1,000 units are produced. A **variable cost** is a cost that depends on the number of units produced. The cost of fabricating parts for a television is a variable cost. The more units produced, the higher the cost of parts. The **total cost** of producing a certain number of units is the sum of the fixed costs and the variable costs attributed to those units.

If we assume a particular selling price, we can find the breakeven quantity either graphically or by using a formula. Figure 1.3 graphs the total revenue earned and the total cost incurred by the sales of various quantities of a hypothetical product.

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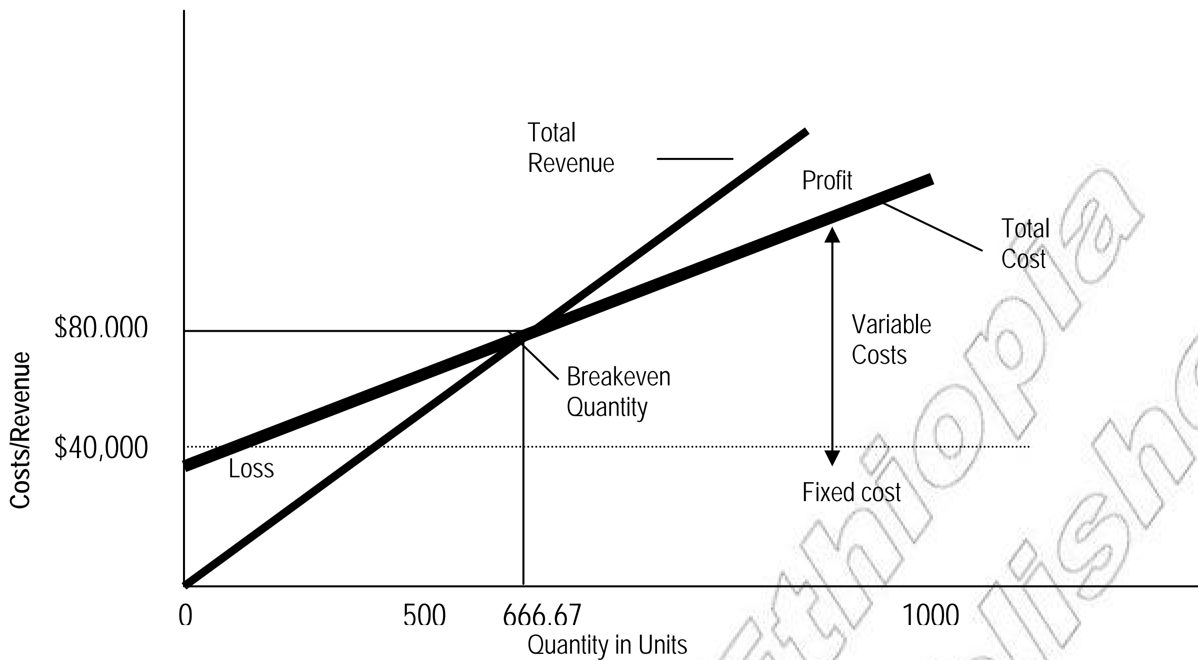

Figure 1.3 Breakeven analyses.

With fixed costs of Birr 40,000 variable costs of Birr60 per unit, and a selling price of Birr120, the break even quantity is 666.67 units. To find the breakeven quantity, first deduct the variable cost from the selling price to determine how much money the sale of one unit contributes to offsetting fixed costs. Then divide that contribution into the total fixed costs to arrive at the breakeven quantity. If the firm sells more than 666.67 units at Birr120 each, it will earn a profit. If it sells fewer units, it will suffer a loss.

Calculating Break-Even Revenue: To calculate break-even Birr that is the amount of revenue needed to cover both fixed and variable costs so your business neither makes nor loses money–use the following formula:

$$\frac{\text{Fixed Costs}}{1 - (\text{Variable cost per unit}/\text{Selling Price per unit})} = \text{Revenue to Break-even}$$

Example: Calculating Break-Even Revenue for the example given

$$\frac{\text{Birr } 40{,}000}{1-(60/120)} = \text{Birr } 80{,}000$$

So, this company needs revenues of Birr80,000 just to cover costs. If it doesn't have enough business at these rates, it loses money by being in business. If it makes more than Birr80,000 in revenue, it's making money.

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Calculating Break-Even Units

To determine how many units must be produced and sold to break-even, use the following formula:

$$\text{Break-even unit} = \frac{\text{Fixed Costs}}{\text{contribution margin}}$$

Where unit contribution margin = Selling Price per Unit – Variable cost per unit

Example: Calculating Break-Even Number of Units

In our example, the number of units required just to cover costs is 667.

$$\frac{\text{Birr } 40{,}000}{\text{Birr } 120 - \text{Birr } 60} = 666.67 \text{ units}$$

Target rate- of -return pricing: It is similar to the mark up pricing in that profit volumes are added to estimated costs. However, profit figures are note calculated based on the cost of labour and material required to provide the product. Instead, profit is calculated based on the financial investment required to provide the product, the return needed to attract that investment, and estimated sales volume.

Procedure: Follow these steps to determine price using rate -of –return pricing approach.

- Determine desired rate of return on investment;
- Estimate investment required;
- Estimate level of sales;
- Estimate unit cost at the projected sales level;
- Calculate desired unit profit;
- Calculate unit-selling price(estimated cost +desired profit)

Example: Price the following product using rate of return pricing approach.

Given: Desired rate of return =20%

Estimated investment required =Birr 600,000

Estimated sales =5,000 units

Estimated unit cost =Birr 80.

Calculate:

A. Desired profit volume .

B. Profit per unit.

C. Unit selling price.

Solution:

A. Desired profit volume =desired rate of return ×estimated investment required.

=20%×Birr 600,000

=**Birr 120,000**

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B.Profit per unit = $\frac{\text{desired profit volume}}{\text{Estimated sales}} = \frac{\text{Birr } 120{,}000}{5{,}000 \text{ units}}$ = **Birr 24 per unit**.

C.unit selling price = unit cost +unit profit =Birr 80 +Birr 24 =**Birr 104**

Activity 5

- **What is the number of units to be produced if the firm desires to make a profit of Birr10,000 assuming the fixed cost, variable cost per unit and selling price per unit are Birr50,000, Birr10 and Birr20 respectively**

Value-Based Pricing: An increasing number of companies are basing their prices on the product's perceived value. Value-based pricing methods use buyers' perceptions of value, not the seller's cost, as the key to pricing. Value-based pricing means that the marketer cannot design a product and marketing program and then set the price.

Competition-Based Pricing: Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. The common methods are going-rate pricing and sealed-bid pricing.

Going-Rate Pricing: In the going-rate pricing, the firm bases its price largely on competitor's prices, with less attention paid to its own costs or to demand. The firm might charge the same, more, or less than its major competitors depending on its strategy.

Sealed-Bid Pricing: Competition-based pricing is also used when firms bid for jobs. Using sealed-bid pricing, a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand. The firm wants to win a contract, and winning the contract requires pricing less than other firms.

Activity: 6

- **What is price and how do marketers set their prices as you see in your locality?**

1.4.3 Place/Distribution

- ***How do producers reach their customers?***

There are a number of channels for the distribution of goods. In this part of the lesson, we will discuss the distribution channels for consumer and industrial goods.

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Distribution Channels for Consumer Goods

Consumer products are goods and services purchased by individuals for personal consumption. The typical channels of distribution for consumer goods are the following.

- **Producer to Consumer**. This channel, often called the direct channel, includes no marketing intermediaries. Practically all services, and a few consumer goods, are distributed through a direct channel. Producers sell directly to consumers for several reasons. Firstly, they can better control the quality and price of their products. Secondly, they don't have to pay such as through discounts for the services of intermediaries. Thirdly, they can maintain closer ties or relations with consumers.
- **Producer to Retailer to Consumer.** A **retailer** is a middleman that buys from producers or other middlemen and sells to consumers. Producers sell directly to retailers when retailers can buy in large quantities. This channel is most often used for products that are bulky, such as furniture and automobiles, for which additional handling (movement of goods)) would increase selling costs. It is also the usual channel for perishable products, such as fruits and vegetables, and for high-fashion products that must reach the consumer in the shortest possible time.
- **Producer to Wholesaler to Retailer to Consumer.** This channel is known as the traditional channel because many consumer goods (especially convenience goods) pass through wholesalers to retailers. A **wholesaler** is a middleman that sells products to other firms. These firms may be retailers, industrial users, or other wholesalers. A producer uses wholesalers when its products are carried by so many retailers that the producer cannot deal with all of them.
- **Producer to Agent to Wholesaler to Retailer to Consumer.** Producers may use agents to reach wholesalers. Agents are functional middlemen that do not take title to products. Agents are compensated by commission (a certain percentage such as 2%) paid by the producers. Usually, such products are not expensive and they are frequently purchased items. Such channel is used for inexpensive products such as sugar or seasonal products such as Christmas cards. When the producers do not have their own sales forces, they use this channel of distribution.
- **Multiple Channels for Consumer goods**. Often a manufacturer uses different distribution channels to reach different market segments. A manufacturer uses multiple channels, for example, when the same product is sold to consumers and industrial users. Multiple channels are also used to increase sales or to capture a larger share of the market. With the goal of selling as much merchandise as

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possible, Addis Tyre Factory markets its tires through its own outlet (of course only in Addis Ababa) and other retail outlets as well through independent wholesalers and retailers. The pictorial representation is shown in figure 1.4.

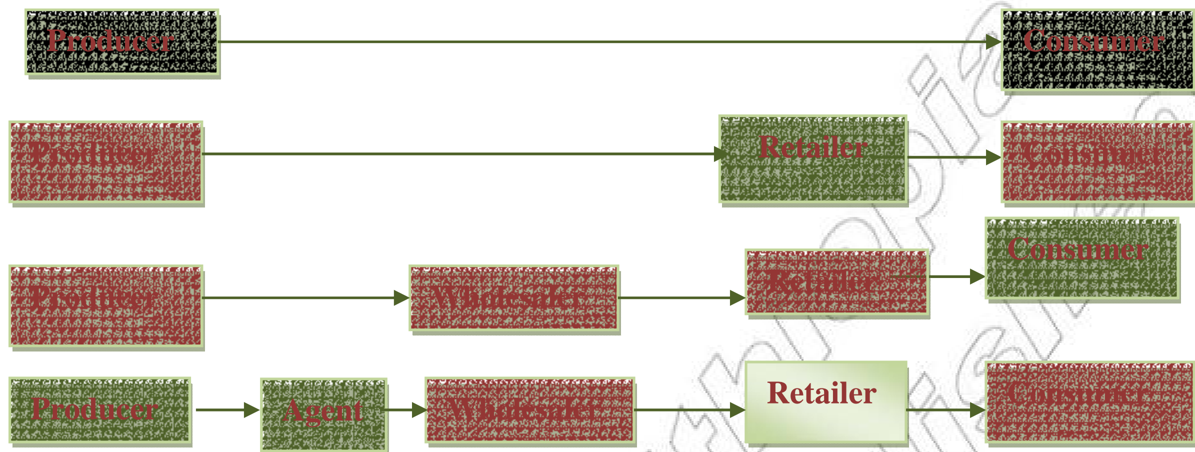

Figure 1.4 Channels of consumer Products

Channels for Industrial Products

Industrial product is a product bought for resale, for making other products, for use in a firm's operations. Producers of industrial products generally tend to use short channels. You will learn the two that are most commonly used.

- **Producer to Industrial User.** In this direct channel, the manufacturer's own sales force sells products directly to industrial users. Heavy machinery, airplanes, and major equipment are usually distributed in this way. The very short channel allows the producer to provide customers with expert and timely services, such as delivery, machinery installation, supply of spare parts, and repairs.
- **Producer to Agent Middleman to Industrial User.** Manufacturers use this channel to distribute such items as operating supplies, accessory equipment, small tools, and standardized parts. The agent is an independent intermediary between the producer and the user. Generally, agents represent sellers.

The summary of the channels of distribution industrial products is shown in Figure 1.5.

Figure 1.5 Channels of Industrial Products

Channel Decision

How does a producer decide to which distribution channels (and which particular intermediaries) to use? Like every other marketing decision, the decision for channel choice should be based on all relevant factors. These include the firm's production capabilities and marketing resources, the target market and the buying patterns of potential customers and the product itself. The factors for choice of channel of distribution are discussed here below:

Factors for Choice of Channels of Distribution

In making decisions with respect to its channels of distribution, management should carefully analyze its market, its product, its middlemen and the company itself.

Product Consideration: The total value of a product influences the amount of funds available for distribution. Management must also consider the cost of freight and handling in relation to the total value of the product. If the product is perishable, then it necessities short channel of distribution. If it is technical in nature, it will often be distributed directly to the industrial users.

Company Considerations: The financial strength of a firm sets limits on which marketing tasks can be handled and which ones should be delegated to intermediaries. Also the past channel experience of the company affects channel design. The company's product mix influences its channel pattern. The wider the company's products mix the greater the ability of the company to deal with its customers directly.

Middlemen Consideration: A producer should select middlemen who will provide the marketing services that he himself is unable to perform. Sometimes, the middlemen whom a producer desires may not be valuable. As a result the manufacturer may have to alter entire channel.

Cost: Cost is the most important point that must be considered while choosing suitable channel. Cost must be measured with respect to functions performed by middlemen.

Channels of competitors: Competitors are those that produce identical or related products. The producer's channel design is also influenced by the channels of competitors' costs. .

Moreover, environmental conditions such as legal and economic factors have an impact on choices of channel of distribution. Based on these factors, the company's strategy can be intensive, selective or inclusive, market coverage.

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i. Intensive distribution is the use of all available outlets for a product. The producer that wants to give its product the widest possible exposure in the market place chooses intensive distribution.

ii. Selective distribution is the use of only a portion of the available outlets for a product in each geographic area. Manufacturers of goods such as furniture, major home appliances, and clothing typically prefer selective distribution.

iii. Exclusive distribution is the use of only a single retail outlet for a product in a large geographic area. Exclusive distribution is usually limited to very prestigious products. It is appropriate, for instance, for specialty goods such as expensive jewellery.

Activity: 7

- **Identify the six common types of channels and also list the factors for the choice of channels of distribution.**

1.4.3.1 Marketing Intermediaries

As stated earlier, there are agents, wholesalers and retailers between producers and customers performing different marketing functions. A marketing organization that links a producer and user within a marketing channel is called a **middleman** or **marketing intermediary.** Wholesalers and retailers as well as their functions will be discussed in this session.

1.4.3.1.1 Wholesalers

Wholesaler is a middleman that sells products to other firms. Wholesale transactions are all transactions except the transaction with the ultimate consumer. Wholesalers may be the most misunderstood of marketing intermediaries. Producers some times try to eliminate them from distribution channels by dealing directly with retailers or consumers. Yet, wholesalers provide a variety of essential marketing service. Although wholesalers can be eliminated, their functions cannot be eliminated. The basic functions must be performed by other channel members or by the consumer or ultimate user. Eliminating a wholesaler may or may not cut distribution costs.

Reasons for the Use of Wholesalers

Manufacturer use wholesalers because they are not only more efficient and economical for manufacturers but also for consumers. Wholesalers also perform

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important functions to retailers. You may ask the basic question of why we use intermediaries such as wholesalers.

The first reason for the use of wholesalers is to **improve exchange efficiency**. There are certain costs associated with an exchange such as negotiation, preparing invoices, assisting customers in product selection and the like. We, therefore, need to try to reduce the number of transactions (exchanges). Without an intermediary, each buyer has to negotiate and exchange with each seller. With one intermediary, each buyer negotiates with one intermediary and each seller negotiates with one intermediary as opposed to many buyers.

The second reason is that intermediaries are **specialists** in the exchange process, provides access to and control over important resources for the proper functioning of the marketing channel.

Wholesaler's Services to Manufacturers

Some of the services wholesalers perform for producers are similar to those they provide to retailers. Others are different which are discussed below.

- **Providing an Instant Sales Force.** A wholesaler provides its producers with an instant sales force so that producers' sales representatives need not call on retailers. This can result in enormous savings for producers. This is because producers rely on wholesalers to sell and distribute their products to retailers.
- **Reducing Inventory Costs.** Wholesalers purchase goods in large quantities from manufacturers and store these goods for resale. By doing so, they reduce the amount of finished goods inventory that producers must hold. This will in turn reduce the cost of carrying or holding inventories.
- **Assuming Credit Risks.** When producers sell through wholesalers, it is the wholesalers who extend credit to retailers, make collections from retailers, and assume the risks of non-payment. These services reduce the producers' cost of extending credit to customers and the resulting bad-debt expense.
- **Furnishing Market Information.** Just as they do for retailers, wholesalers supply market information to the producers they serve. Valuable information accumulated by wholesalers may concern consumer demand, the producers' competition, and buying trends.

Wholesaler's Services to Retailers

Wholesalers help retailers by buying large quantities and then selling to retailers in smaller quantities and by delivering goods to retailers. They also stock -- in one

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place-the variety of goods that retailers would otherwise have to buy from many producers. And wholesalers provide assistance in three important areas. These are promotion, market information and financial aid.

- **Promotion.** Some wholesalers help promote the products they sell to retailers. These services are usually either free or performed at cost. Wholesalers, for example, are major sources of display materials designed to stimulate emotional buying. They may also help retailers build effective window, counter, and bin displays. They may even assign their own employees to work on the retail sales floor during special promotions.

- **Market information.** Wholesalers are a constant source of market information. Wholesalers have numerous contacts with local businesses, foreign suppliers and agents. In the course of these dealings, they accumulate information about consumer demand, prices, new developments within the trade, and even industry personnel. Most of this information is transmitted to retailers informally, through the wholesaler's sales force. However, some wholesalers distribute bulletins or newsletters to their customers as well. This information is very important to retailers for decision-making.

- **Financial Aid.** Most wholesalers provide a type of financial aid that retailers often take for granted. By making quick and frequent deliveries, wholesalers enable retailers to keep their own inventory investments small in relation to sales. Such indirect financial aid reduces the amount of operating capital retailers need. In some trades, wholesalers extend direct financial assistance through long-term loans. Others extend sales on credit basis to retailers.

Types of Wholesalers

Wholesalers generally fall into three categories. They are merchant wholesalers; commission merchants, agents and brokers; and manufacturers' sales branches and sales offices.

- **Merchant Wholesalers.** A **merchant wholesaler** is a middleman that purchases goods in large quantities and then sells them to other wholesalers, or retailers and institutional, farm, government, professional, or industrial users. Merchant wholesalers usually operate one or more warehouses at which they receive, take title to and store goods. These wholesalers are sometimes called distributors or jobbers .

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Merchant wholesalers may be classified as **full-service or limited service wholesalers**. The classification is based on the number of services they provide. A full-service wholesaler performs the entire range of wholesaler functions described earlier. These functions include delivering goods, supplying warehousing, arranging for credit, supplying promotional activities, and providing general customer assistance.

Full service wholesaler consists of general merchandise wholesaler, limited line wholesaler, and speciality-line wholesaler. A **general merchandise wholesaler** deals in a wide variety of products, such as drugs, hardware, non-perishable foods, cosmetics, detergents, and tobacco. A **limited-line wholesaler** stocks only a few product lines, but carries numerous product items within each. **Product line** is a group of similar products that differ only in relatively minor characteristics. A **speciality-line wholesaler** carries a select group of products within a single line. For example, a wholesaler that carries children's clothing can be considered as a speciality wholesaler.

As opposed to the full-service wholesaler, a **limited-service wholesaler** assumes responsibility for a few wholesale services only. Other marketing tasks are left to other channel members or consumers. For instance, if we take **Cash and Carry wholesaler**, customers pay and furnish their own transportation service. It does not also provide credit service to its customers. The other is **Mail Order Wholesaler** that uses catalogues instead of sales force to sell its products.

- **Commission Merchants, Agents and Brokers.** Commission merchants, agents, and brokers are functional middlemen. Functional middlemen do not take title to products. They perform a small number of marketing activities. For their service, they are paid a commission that is a percentage of the sales price.

A **commission merchant** usually carries merchandise and negotiates sales for manufacturers. In most cases, commission merchants have the power to set the prices and terms of sales. After a sale is made, they either arrange for delivery or provide transportation services.

An **agent** is a middleman that expedites, exchanges, represents a buyer or a seller, and often is hired permanently on a commission basis. When agents represent producers, they are known as sales agents or manufacturer's agents. As long as the products represented do not compute, a sales agent may represent one or several manufacturers on a commission basis.

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A **broker** is a middleman that specializes in a particular commodity, represents either a buyer or a seller, and is likely to be hired on a temporary basis. Brokers may perform only the selling function or both buying and selling, using established contacts or special knowledge of their fields.

- **Manufacturers' Sales Branches and Sales offices.** A **manufacturer's branch is,** in essence**,** a merchant wholesaler that is owned by a manufacturer. Sales branches carry inventory, extend credit, deliver goods, and offer help in promoting products. Their customers are retailers, other wholesalers, and industrial purchasers.

Because sales branches are owned by producers, they stock mainly the goods manufactured by their own firms. Selling policies and terms are usually established centrally and then transmitted to branch managers for implementation.

A **manufacturer's sales** office is essentially a sales agent owned by a manufacturer. Sales offices may sell goods manufactured by their own firms and also certain products of other manufacturers that complement their own product lines.

Activity: 8

- **Identify the major functions that wholesalers can perform to the producers and retailers.**

1.4.3.1.2 Retailers

A retailer is a middleman that buys from producers or other middlemen and sells to consumers. Retailers are the final link between producers and consumers. Retailers sell not only goods but also such services as repairs, haircuts, and tailoring. Some retailers sell both goods and services. For example, an automobile dealer may sell automobiles and maintenance service to its customers. Generally, retailers can be classified as store and non-store retailers.

Classes of in Store Retailers

Retailers can be classified in different ways. The common classifications are on the bases the number of stores owned, control of outlets and size and number and kinds of products carried. Brief discussions of retailers are given below:

Retailers according to number of stores owned and operated by a firm. One way to classify retailers is by the **number of stores owned and operated** by the firm. An **independent retailer** is a firm that operates only one retail outlet. The majority of

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retailers in Ethiopia are independent. One-store operators generally provide personal service and a convenient location.

A **chain retailer** is a company that operates more than one retail outlet. By adding outlets, chain retailers attempt to reach new geographical areas. As sales increase, chains may buy merchandise in larger quantities and thus take advantage of quantity discounts. They also get more power in their dealings with suppliers in terms of services they get.

Retailers according to Control of Outlets

Another way of classifying retailers is by the **control of outlets**. According to the control of outlets, retailers are classified as corporate/ chain stores, voluntary chains and cooperative chains. **Corporate Chains/Chain Stores** are two or more outlets that are commonly owned and controlled, have central buying and merchandising, and sell similar lines of merchandise. They appear in all types of retailing. But, they are strongest in department stores, variety stores, food stores, drugstores, shoe stores, and women's clothing stores. They achieve economies of scale through central buying for different stores. This allows them to take advantage of quantity discounts. They also have advantages in promotion and management by sharing the costs to many stores.

Voluntary Chains are wholesaler-sponsored group of independent retailers that engage in-group buying and common merchandising. The wholesaler sponsor often provides training programs, computer and accounting assistance to members of the chain.

Cooperative Chains are retailer-sponsored groups formed by independent retailers to run their own buying organization and conduct joint promotion to their products.

Retailers according to size and the kind and number of products carried

Still, **another way to classify in-store retailers is by size and the kind and number of products carried.** The most common ones in this category are department stores, discount stores, Catalog and Warehouse Showrooms as elaborated below:

- **Department Stores.** These large retail establishments consist of several sections, or departments, that sell a wide assortment of products. According to the American system, a department store is a retail store that (1) employs twenty-five or more persons, and (2) sells at least home furnishing, appliances, family apparel, and

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household linens and dry goods. Each must be located in the different parts of the stores. Department Stores are service oriented. They provide credit, delivery, personal assistance, liberal returns policies, and pleasant shopping atmospheres.

- **Discount Stores.** A **discount store** is a self-service, general merchandise outlet that sells goods at lower than usual prices. These stores can offer lower prices by operating small profit margins, by locating large retail showrooms in low rent areas, and by offering minimal customer services. To keep prices low, discount stores operate on the basic principle of high turnover of such items as appliances, toys, clothing, automotive products, and sports products. To attract customers, many discount stores also offer some food and household items at low prices.
- **Catalog and Warehouse Showrooms.** A **catalog showroom** is a retail outlet that displays well-known brands and sells them at discount prices through catalogs within the stores. Colourful catalogs are available in the showroom and sometimes by mail. The customer selects the merchandise, either from the catalog or from the showroom display. The customer fills out an order form provided by the store and hand the form to a clerk. The clerk retrieves the merchandise from a warehouse room that is adjacent to the selling area.
- **Warehouse showrooms** are retail facilities with five basic characteristics: (1) large, low-cost buildings, (2) warehouse materials-handling technology such as crane or ladder, (3) vertical merchandise displays, (4) large on-premises inventories, and (5) minimal service. Furniture retailers use such systems. These operations employ few personnel and offer few services.
- **Convenience Stores.** A convenience store is a small food store that sells a limited variety of products but remains open beyond normal business hours. Their prices are high since they are open for long hours such as up to midnight or sometimes even for 24 hours.
- **Supermarkets.** A **supermarket** is a large self-service store that sells primarily food and household products. It stocks canned, fresh, frozen, and processed foods, paper products, and cleaning goods. Supermarkets may also sell such items as housewares, toiletries, toys and games, drugs, stationery, books, and magazines, plants and flowers, and a few clothing items. Supermarkets are large-scale operations that emphasize low prices and one-stop shopping for household needs.

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- **Superstores.** A **Superstore** is a large retail store that carries not only food and non-food products normally found in supermarkets but also additional product lines such as housewares, hardware, small appliances, clothing, personal care-products, garden products, and automotive merchandise. Superstores also provide a number of services to entire customers. Typically, these include automotive repair, snack bars and restaurants, film developing, and banking.

- **Warehouse Clubs.** The **warehouse club** is a large-scale, members-only establishment that combines cash-and-carry wholesaling features with discount retailing. For a nominal annual fee, small retailers may purchase products at wholesale prices for business use or resale. Warehouse clubs also sell to ultimate consumers. Instead of paying a membership fee, individual consumers pay about 5 percent more on each item than do small-business owners. Individual purchasers can usually choose to pay yearly dues for membership cards that allow them to avoid the 5 percentage mark-up. Warehouse clubs can offer a broad range of merchandise, including perishable and non-perishable foods, beverages, books, appliances, house wares, automotive parts, hardware and furniture. However, they provide limited services to keep their price lower than discount stores and supermarkets. They use direct mail for adverting.

- **Traditionally Speciality Stores.** A **traditional speciality store** carries a narrow product mix with deep product lines. Traditional speciality stores are sometimes called limited-line stores . If they carry depth in one product category, they may be called single-line retailers . Speciality stores usually sell such product as clothing, jewellery, sporting goods, computers, flowers, baked goods and books. Speciality stores can be classified further by the narrowness of their product lines. For example, a clothing store is a single-line store; men's clothing store is a limited line store but men's custom shirt store is a super-speciality store.

- **Off-price Retailers.** Off-price retailers are stores that buy manufacturers' seconds, overruns, returns, and off-seasonal merchandise at below-wholesale prices and sell them to consumers at deep discounts. Off-price retailers sell limited lines of national brand items, usually clothing, shoes or house wares. But they offer limited customer services. Manufacturers may use their own outlets to sell overstocks and unsold merchandise from other retail outlets at deep discounts.

- **Category Killer.** A **category killer** is a very large speciality store that concentrates on a single product line and competes by offering low prices and an enormous

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number of products. These stores are called category killers because they take business away from smaller, high-cost retail stores.

Retailers can also be classified by Amount of Service they provide. This is because different products require different amount of service some customer services preference vary.

- **Self-service Retailers:** In such retailer stores, customers are willing to perform their own "locate-compare-select" process to save money. Self-service is the basis of discount operations and typically is used by sellers of convenience goods such as supermarkets and nationally branded, fast-moving shopping goods such as catalog show rooms.
- **Limited-service Retailers:** Provide more sales assistance because they carry more shopping goods about which customers need information. Their operating costs are higher resulting in higher prices.
- **Full-service Retailers:** Salespeople assist customers in every phase of the shopping process. They carry usually more specialty goods for which customers like to be "waited on." They provide more liberal return policies, various credit plans, free delivery, home serving, and extras such as lounges and restaurants. More services result in much higher operating costs, which are passed along to customers as premium or higher prices.

Retailers can be classified by type of Store Cluster in the different localities. Most stores today cluster together to increase their customer pulling power and to give consumers the convenience of one-stop shopping. Customers get what they want in these centres. The main types of store cluster are central business district, shopping centres, community and Neighbourhood Shopping Centres. In some cases these are known as planned shopping centres.

Central Business District. They are retail clusters with department stores, speciality stores, banks, and movie theatres. They are usually located in downtowns.

- **Shopping Centres.** Shopping centres are groups of retail businesses planned, developed, owned, and managed as a unit.
- **Regional Shopping Centres:** A regional shopping centre usually has large department stores, numerous speciality stores, restaurants, movie theatres, and sometimes-even hotels. It carries most of the merchandise offered by a downtown

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shopping centre. The largest shopping centres contains between 40 and 100 stores attracting customers from wide area.

- **Community Shopping Centres:** A **community shopping centre** includes one or two department stores, along with convenience stores. They normally contain a branch of a department store, supermarket, speciality stores, and sometimes a bank.
- **Neighbourhood Shopping Centres:** They generally contain 5-15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount sores, and several service stores, dry cleaner, self-service laundry, drugstore, video-rental outlet, barber or beauty shop.

Activity: 9

- **Visit any retail stores in your nearest market. List the services it provides by asking the shopkeeper. Classify the retailer into one of the retailers discussed in the previous section.**
- **List and explain the marketing intermediaries.**

Kinds of Non Store Retailing

Non-store retailing is selling that does not take place in conventional store facilities; consumers purchase products without visiting a store. Non-store retailers use direct selling, direct marketing and vending machines.

- **Direct Selling. Direct selling** is the marketing of products to customers through face-to-face sales presentation at home or in the work place. There are two kinds of direct selling: door-to-door and party plan sales.

Door-to-door selling means going directly to the customers' home for sale. It gives consumers the opportunity to buy at home or another convenient non-store location. However, with the changing roles of women (women now working outside home), direct selling firms find new ways of making contact with potential customers. As the result office-to-office and house sales parties appear in the place of door-to-door retailing.

Party-plan/Home-sales parties: In this plan, a host invites some friends to a party and will make a sales presentation. This creates more favourable selling conditions than door-to-door as the guest gets to shop in a friendly, social atmosphere. Benefits of direct selling include product demonstration, personal attention and convenience.

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The disadvantage is that direct selling is the most expensive form of retailing due to higher costs for sales commission. This resulted in higher prices for customers.

- **Direct Marketing**. Direct marketing is the use of the telephone and nonpersonal media to communicate product and organizational information to customers, who can then buy products by mail or telephone. Catalog marketing, direct-response marketing, telemarketing, television home shopping, and online marketing are all types of direct marketing.

With **catalogue marketing,** an organization provides a catalogue from which customers make selections and place orders by mail or telephone. For example, magazines, newspapers and other products can be marketed using catalog marketing.

Direct-response marketing occurs when a retailer advertises a product and makes it available through mail or telephone orders. Customers normally use a credit card to make purchases. Sending letters, samples, brochures, or booklets to prospects on a mailing list are forms of direct-response marketing.

Telemarketing is using the telephone to perform marketing-related activities. Advantages of telemarketing include improving customer service, speeding up payment on past-due accounts, raising funds for non-profit organizations, and gathering marketing information from actual or potential customers.

Television home shopping displays products to television viewers, who can then order them by mailing a toll-free number and paying by credit card. However, there must be shopping cable channels to use this method. The most common products sold through television home shopping are electronics, clothing, housewares, and jewellery

Online retailing presents products on customers' computer screens. Customers purchase products by ordering them through their terminals and modems or by telephone.

- **Automatic Vending. Automatic vending** is the use of machines to dispense convenience goods automatically when customers deposit the appropriate amount of money. Vending machines do not require sales personnel. They permit twenty-four-hour service. They can be placed in convenient locations in office buildings, educational institutions, hotels and service stations. The machines make available a wide assortment of goods such as candy, cigarettes, soups, sandwiches, fresh

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fruits, chewing gum, postage stamps, hot and cold beverages, perfume and cosmetics. Machines offer banking service around the clock.

Activity: 10

- **Which one of the non-store retailing methods are found near your school for the selling of goods to customers.**

1.4.3.2 Warehousing

Warehousing is the set of activities involved in receiving and storing goods and preparing them for reshipment. Goods are stored to create time utility; that is, they are held until they are needed for use or sale. Warehousing includes the following activities:

- ***Receiving goods***--- The warehouse accepts delivered goods and assumes responsibility for them.
- ***Identifying goods***--- Records are made of the quantity of each item received. Items may be marked, coded, or tagged for identification.
- ***Sorting goods***--- Delivered goods may have to be sorted into different classes before being stored.
- ***Dispatching goods to storage***--- Items must be moved to specific storage areas, where they can be found later.
- ***Holding goods***--- The goods are kept in storage under proper protection until needed.
- ***Recalling, selecting, or picking goods***--- Items that are to leave the warehouse must be efficiently selected from storage.
- ***Marshalling Shipments***--- The items making up each shipment are brought together, and the shipment is checked for completeness. Records are prepared or modified as necessary.
- ***Dispatching Shipments***--- Each shipment is packaged suitably and directed to the proper transport vehicle. Shipping and accounting documents are prepared.

Types of Warehouses

Warehouses may be classified in different ways. But the most common and simple method of classification is according to ownership. A firm may either use its own warehouse or rent space in public warehouses. A **private warehouse** is owned and operated by a particular firm. It can be designed to serve the firm's specific needs. It

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is often built for specialized user needs. However, the organization must take on the financing the facility, determining the best location for it, and ensuring that it is used fully. Generally, only companies that deal in large quantities of goods can justify private warehouse.

Public warehouses offer their services to all individuals and firms with fee. Public warehouses operate in a manner similar to the common carriers in transportation. That is they provide services on a fee basis to a number of users. Public warehouses are good for users who need to expand or contract (reduce) storage space in a short period of time. Most are huge, one-story structures on the outskirts of major cities, where truck transportation is easily available. They provide storage facilities, areas for sorting and marshalling shipments, and office and display spaces for wholesalers and retailers. Public warehouses will also hold and issue receipts for goods used as collateral for borrowed funds. Public warehouses provide general purpose storage spaces.

Public warehouses can also be classified into five categories.

- **Commodity warehouses**. These are warehouses that limit their services to certain commodity groupings. They may specialize in storing and handling such as commodities as lumber, cotton, tobacco, and grain.
- **Bulk-storage warehouses.** Some warehouses offer storage and handling of products in bulk, such as liquid chemicals, oil, highway salts, and syrups. Mixing products and breaking bulk may also be part of the service.
- **Cold-storage warehouses.** These are controlled, low-temperature warehouses. Perishables such as fruits, vegetables, and frozen foods, as well as some chemicals and drugs require this type of storage for preservation.
- **Household goods warehouses.** These are warehouses for storage and handling of household articles and furniture. The major users are household manufacturers and moving companies.
- **General Merchandise Warehouses.** These warehouses handle a broad range of merchandise. The merchandise does not require special facilities or special handling equipment.

Bonded Warehouses are used for items to be imported or exported. They are owned by the government. Bonding arrangements are made with the government for certain goods such as tobacco and liquor, on which taxes or duties are paid. The arrangement is between the owner of merchandise and the government. In this

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arrangement, the goods cannot be removed from the warehouse unless to another bonded warehouse until the required taxes or duties are paid. The owner of the goods benefits by not having to pay the taxes or duties until the time the goods are sold. This minimizes the capital required in inventories or goods.

Activity: 11

- **Go to your nearest warehouse of any manufacturing organization. Identify the list of warehousing activities by asking the manager of the warehouse. Your teacher will help you in the preparation of interview guides.**

1.4.3.3 Transportation

Transportation is simply the shipment of products to customers. The greater the distance between seller and buyer, the more important is the choice of the means of transportation and the particular carrier. For transportation, three things are necessary. Firstly, a vehicle; secondly medium of movement like land, water or air or terminal; and lastly power to run the vehicle must exist.

A firm that offers transportation service is called a **carrier**. A common carrier is a transportation firm whose services are available to all shippers. Railroads, airlines, and most long-distance trucking firms are common carriers. A Contract carrier is available for hire by one or several shippers. Contract carriers do not serve the general public. A private carrier is owned and operated by the shipper.

In addition, a shipper can hire agents called freight forwarders to handle its transportation. Freight forwarders pick up shipments from the shipper, ensure that goods are loaded on selected carriers. They also assume responsibility for the safe delivery of the shipments to their destinations.

The Postal Service offers also parcel delivery. The posts office provides complete geographic coverage at the lowest rates, but it limits the size and the weight of the shipments it will accept. The Ethiopian postal service, for instance, provides express mail services for delivery of some goods. This method is commonly used for mail orders.

The six major criteria used for selecting transportation modes are **cost, speed, dependability, load flexibility, accessibility and frequency**. Cost includes both variable and fixed costs. Speed is measured by the total time that a carrier possesses the products. The duration includes the time for pick up and delivery, handling, and movement between point of origin and destination. Usually there is direct

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relationship between cost and speed. This is, faster modes of transportation are more expensive. A transportation mode's dependability is determined by the consistency of service provided by that mode. Load flexibility is the degree to which a transportation mode can provide appropriate equipment and conditions for moving specific kinds of products and can be adapted for moving other kinds of products. For example, certain types of products may need controlled temperatures or humidity levels. Accessibility refers to a transportation mode's ability to move goods over a specific route or network. Frequency refers to how often a marketer can ship products by a specific transportation mode. Whereas pipelines provide continuous shipments, railroads and waterways follow specific schedules for moving products from one location to another.

Mode of Transportation

The common modes of transportation are (a) trucks, (b) railroads, (c) airplanes, (d) waterways and (e) pipelines. In developing countries like ours, animal transport is the dominant one.

a) Road

i) Animal transport. In ancient time, man used to carry goods on his/her head and her back. This is still common in developing countries like Ethiopia. Then he/she used animals like asses, horses and buffaloes for carrying goods. These animals are the major transportation means in rural Ethiopia and even in cities and towns including Addis Ababa.

ii) Trucks. The trucking industry consists of common, contract, and private carriers. Trucks can handle freight quickly and economically, and they carry a wide range of shipments. Many shippers favour this mode of transportation. This is because it offers door-to-door service, less stringent packaging requirements than ships and airplanes, and flexible delivery schedules. Currently, truck transportation is the most popular transportation amongst all other modes in Ethiopia. Trucks are also necessary for goods to reach the railway station, port or airport. However, for domestic transportation purposes, roads are the major instruments of transportation.

b) Railroads. There is only one railway in Ethiopia; that is from Addis Ababa to Djibouti. In the developed nations, there is keen competition between trucks and

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railway because they are both land transports. Railroads provide facility for quick transport of perishable goods like eggs, milk, vegetables and fruits. Breakage and spoilage of goods in transit is less because of less vibrations of vehicle affected by weather conditions.

c) **Waterways.** Cargo ships offer the least expensive but slowest form of transportation. They are used mainly for bulky, non-perishable goods such as iron ore, bulk wheat, motor vehicles, and agricultural implements. Of course, shipment by water is limited to cities located on navigable waterways. The common modes of transportation in waterways are rivers, canals, and sea:

i) **Rivers:** Provide a safe way for the carriage of goods and passengers. Transportation of heavy goods is very easy and cheap to places located on the bank of river. In Ethiopia, Baro is the only river that provides transportation services. Other rivers in Ethiopia cannot provide transportation because of the difficulty of the geographic terrains.

ii) **Canals** also provide a convenient highway for the carriage of goods and passengers. Egypt gets millions of dollars from Suez Canal per day.

iii) **Sea**. Sea transport is the biggest mode of transport between one country and another. Foreign trade is dependent mostly on maritime transport. As stated above, it is the cheapest mode of transport.

d) **Airplanes.** Air transport is the fastest but most expensive transportation. All certified airlines are common carriers. Supplemental or charter lines are contract carriers. It saves much time and inconvenience for the carriage of passengers and goods. Because of the high cost, lack of airport facilities in many areas, and reliance on weather conditions, the share of airlines is the least in many countries. Construction of runways is also very expensive.

e) **Pipelines.** Pipelines are a highly specialized mode of transportation. They are used primarily to carry petroleum and natural gas. Pipelines have become more and more important for those countries that have high demand for petroleum products.

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Activity: 12

- **Which mode of transportation is the most common in Ethiopia? What are the possible reasons for that?**

1.4.4 Marketing Promotion

Promotion is an organization's communication with external publics, especially customers and potential customers. The basic purpose of promotion is to inform persuade and remind. Promotion is the function of informing, persuading and influencing the consumers' purchase decisions.

1.4.4.1 The Promotional Mix

Components of promotional mix are advertising, personal selling, sales promotion and publicity.

a. Advertising: Advertising consists of all the activities involved in presenting to a group, a non personal oral or visual sponsored message regarding a product, service or idea. The message is transmitted through one or more media and is paid for by an identified sponsor. The media include news paper, magazine, television and radio.

Advantages of advertising: The most common advantages of advertising are the following:

- Flexibility, it allows you to focus on a small, precisely defined segment.
- Cost efficient, it enables a company to reach a large number prospects at a low cost per person.
- Allows the message to be repeated, and can improve public image.
- Allows for repeating the message, lets the buyer receive and compare the messages of various competitors.
- Allows for dramatization.
- Also used to build a long-term image of a product.
- Trigger quick sales.

Disadvantages of advertising: Advertising also has the following disadvantages:

- Absolute Birr outlay is very high.
- Rarely provides quick feedback, or necessarily any feedback.
- Less persuasive than personal selling.
- Audience does not have to pay attention.
- Indirect feedback (without interactivity).

a. Personal Selling: It is a seller's promotional presentation conducted on a person to person basis with the potential buyer. It is a direct, face-to-face form of promotion.

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b. **Sales promotion:** Incentives, inducements and point-of-sale material designed to stimulate trade and/or consumer demand. For example, free samples, discount vouchers and competitions.

c. **Internet and on-line marketing:** Electronic media are used, as opposed to traditional methods. The approach can be targeted (as per direct marketing), e.g. e-mail marketing, or involve advertising on the Internet.

d. **Publicity:** Publicity includes activities to promote a company or its products by planting news about it in media not paid for by the sponsor. Presently, public relations is replacing that of publicity. Public relations deals with building good relations with the company's various publics by obtaining favourable publicity, building up a good " corporate image," and handling or heading off unfavourable rumours, stories and events. The major functions of public relations are press relations, product publicity, public affairs, lobbying, investor relations and development.

Activity: 13

- **Explain the difference between newspaper and magazine and radio/tv advertisement.**

1.4.5 Marketing Management

Who wants in the class to specialize in Marketing Management? Do you think marketing management practice is matured in Ethiopia?

Marketing management is one of the many specialized areas of management. Remember that marketing is a philosophy to guide the whole firm toward satisfying customers at a profit. **Kotler defines marketing management as the analysis, planning, implementation and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives**. Thus, marketing management involves managing demand, which in turn involves managing customer relationships.

Perreault and McCarthy defined marketing management as the process of (1) Planning marketing activities; (2) directing the implementation of the plans, and (3) controlling these plans. Planning, implementation and control are the basic jobs of all managers – but here it is related to marketing managers. Marketing planning includes setting objectives, evaluation of opportunities, creating marketing strategies, and preparing marketing plans and development of marketing programs on marketing mix. Implementation entails putting plans and programs into effect. On

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the other hand, controlling of marketing plans and programs deals with measurement of results and evaluation of progress.

The detail discussion on marketing management is beyond the scope of this text book. Some of you may specialize in marketing management when you join universities next year. But, an economy dominated by small businesses such as in Ethiopia, employers require management graduates in general areas to perform many of the major functions of organizations. However, in developed nations, marketing management is one of the prestigious fields of management studies. As a result, marketing managers are highly paid ones among other professionals.

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Summary

This unit addresses the basics of marketing and its basis functions as well as the marketing mix. **Marketing** is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

Market is a mechanism that brings buyers and sellers of product together.. Markets may be classified as consumer markets, industrial markets, reseller markets, government markets and institutional markets.

The **functions** of marketing include buying, selling, transporting, storing, financing, standardizing and grading, risk taking and gathering market information. These marketing functions are also performed by middlemen such as wholesalers or retailers.

Marketing mix is the mixture of marketing variables that an organization can manipulate to approach the target market. They are known as the four P's; namely product, place (distribution), promotion and price. A product is everything one receives in an exchange, including attributes and expected benefits. The product may be a manufactured item, a service, an idea, or some combination of these. The sales and profit volumes of a product can be estimated using the concept of the product life cycle. A channel of distribution (place) is a sequence of marketing organizations that directs a product from the producer to the ultimate user. Different products require different channels of distribution. The main ones are direct and indirect (which may be long or short) or both. .

Promotion is the function of informing, persuading, and influencing the customer's purchase decision. The basic components of promotion are advertising, personal selling, sales promotion and publicity as well as Internet advertising.

Review Questions

Part I. Choose the best answer from the given alternatives.

1. The process of creating value for building relationships with customers in order to capture value back from them is __________.
   a. Utility
   b. Social Commerce
   c. Transactional
   d. Marketing
   e. Buying power
2. When a gap exists between existing state and your desired state, you have a/an ________.
   a. Value
   b. need
   c. want
   d. benefit
   e. demand
3. The exchange of value between parties is a/an _________.
   a. Purchase
   b. transaction
   c. transition
   d. sale
   e. none of the above
4. The company's marketing mix consists of the following EXCEPT.
   a. Promotion
   b. place
   c. product
   d. production
   e. price
5. Decisions on where to have your products available for purchase by the customer would fall under the marketing mix element known as _________.
   a. Price
   b. promotion
   c. product
   d. place
   e. production

Part II. Define and explain the following terms.

A. Marketing
B. Market
C. Exchange
D. Transaction
E. Middleman
F. Agent
G. Wholesaler
H. Retailer
I. Telemarketing
J. Warehousing
K. Transportation
L. Advertising
M. Personal selling
N. Publicity
O. Public relations

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Part III. Answer the following questions.

1. What is the difference between publicity and public relations? What is the purpose of each?
2. What are the most common channels for consumer products? For industrial products?
3. Identify three kinds of full-service wholesalers. What factors are used to classify wholesalers into one of these categories?
4. Which distribution channels would producers of services most likely use? Why?
5. Many producers sell to consumers both directly and through middlemen. How can such a producer justify competing with its own middlemen?
6. Identify and describe the major ingredients of a promotional mix.
7. What is the major role of promotion?
8. What are the four stages of product life cycle? How can a firm determine which stage a particular product is in?
9. Why most firms introduce new products?
10. Describe each of the classification of industrial products.
11. What is the primary function of price?
12. Which pricing strategies are used mainly for new products?
13. Which media of advertising do businessmen in your locality use most frequently?

PART IV.GROUP WORK

Form group of five to ten students in your class and visit one business organization and identify what type of product pricing approach it follows and why?

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