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Distribution Channel Management as an Engineering Drive To SMEs Competitiveness: A Study of selected SMEs in Southern Nigeria

Abstract: This paper is on distribution channel management as an engineering drive to SMEs competitiveness. The study took a survey approach and covered a population of 1103 members of marketing force drawn from fifty SMEs across ten selected states south-south and south-eastern part of Nigeria. Using marketing efficiency and customer's satisfaction as proxies to competitiveness, a five point likert scale questionnaire that covered the different areas of distribution channel management and SMEs competitiveness was used to elicit response from the respondents. The statistical tool used for data analysis is the Mann Whitney U test using the 20.0 version of statistical package for social sciences (SPSS). Findings from the study show that channel management has not contributed meaningfully to SMEs competitiveness in Nigeria. The paper therefore recommends that distribution channel modification must be performed periodically because of the ever changing market environment like increased activities of competitors, changes in demand, customer preferences and taste, Manufacturing companies should monitor the activities of channel members in order to keep it in conformity with the marketing strategy and goals of the organization and Cordial relationship must be initiated and maintained with distribution channel management members especially since distribution cannot be effective & efficient without them.

keywords: channel, competitiveness, customer' satisfaction, distribution, efficiency, marketing.

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INTRODUCTION

It is said in marketing that the essence of a product is felt only when it gets to the final consumer. The process of getting the products to the final consumer is therefore as important as the product itself. However, it can also be said that the art of product delivery is an engaging and evolving field, hence, in today's marketing environment, organizations are not only seeing distribution as normal routine function but a strategic tool that can confer strategic competitive advantage on the organization. The act of distribution is done through channels that must be co-ordinated and managed for organizational good.

Distribution channels are pathways along which products travel from producers and manufacturers to ultimate consumers. They are routes along which products, information, and finance flow. While some manufacturers deal directly with their customers, most manufacturers use a distribution channel to take products to consumers. Considerable thought, effort, and investment are required to create and maintain a distribution channel. Channel margins and the expense of sales efforts in managing channels can form a substantial proportion of total marketing costs. An effective channel can be a source of strategic advantage for companies. Channel design and channel management are therefore important elements in a company's competitiveness. Channels are also important from a public policy perspective since they employ a large number of people and are critical to the unhindered availability of food items and other products to customers across the socio-economic spectrum.

Distribution channels can be understood by analyzing their constituents, structure, functions, and contributions. Channels consist of networks of different types of independent businesses which need to be aligned to assist manufacturers in fulfilling and creating consumer demand for products and services. Channels consist of three categories of entities: agents, merchants, and facilitators.

Agents promote products and generate sales but do not themselves buy and stock products. Agents can be independent or they may be employees of the company. Merchants such as retailers, wholesalers, and distributors buy, stock, and sell goods to others in the chain or to ultimate consumers. Merchants are usually independent but some companies may have their own wholesale trading units or retail outlets. Facilitators such as logistics service providers, independent warehouses, carrying and forwarding agents, and transporters facilitate movement, storage, and delivery of products but are not involved in promoting or trading. Distribution channels are configured by putting together agents, merchants, and facilitators in specific ways depending on the market, product, and competitive context. Channel structures vary across industries, but all channels can be described using simple concepts such as directness, levels, density, variety, and novelty. Directness refers to the process of direct sales between manufacturers and consumers without any intervening channel member. Indirect distribution occurs when a manufacturer uses channel members to sell to consumers (Rangan, Menezes, & Maier, 1992). In this study, the researchers shall investigate two objectives which are critical to distribution channel management for manufactured goods in Nigeria, this include efficiency and adaptability.

Conceptual/Theoretical Framework

Distribution Channel: Assael (2007) defines channels of distribution as "the network through which marketing organizations move their products to their customers. To Nwokoye, (2004) distribution is the process of making goods physically available to buy thus bridging the gap of space and time between production and use or consumption of a commodity or product. Consequently, Adeleye (2005) opined that distribution is crucial to marketing, for without good distribution, no single product would reach the ultimate consumers. He further stressed that distribution is not only a matter of ensuring that products reach the hands of consumers but that the raw materials must be moved physically with a view to attaining the goal of proving potential satisfaction to ultimate consumers. Distribution is an important marketing function aimed at getting the right product to the right market segment at the right quantity and at the right time. It activities include, transportation, inventory management, warehousing.

According to Kotler and Armstrong (1996), distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. Distribution channel management means the management of movement of goods and services from the products to consumers. It overcomes the major time, place and possession gaps that separate goods and services from those who would use them. According to them, members of the marketing channel perform many key functions, some of which helps to complete transactions includes: Information, promotion of sales, contacts, matching, negotiation, physical distribution, risk taking.

Also, Etzel et'al (2006) humanistic view explains physical distribution management as consisting of all the activities concerned with moving the right amount of the right products to the right place at the right time. In addition, Kotler (1984) defines distribution management as involving planning, implementing, and controlling the flow of materials and final goods from points of origin to points of use to meet consumers need at a profit. Distribution according to him is not only a cost; it is a potential tool in competitive marketing. Companies can attract additional customers by offering better services or lower prices through physical distribution improvements.

Nwokoye (2004) added that channel/distribution management or logistics is also concerned with the efficient movement of raw materials from suppliers and finished goods from the end of production line to the customers. A starting point in the design of channel management system by the producer is to set a customer service standard. This has a number of dimensions and the most important is the time it takes to get merchandise to the customers like delivery time. It should be noted that decisions that leads to cost reduction in one activity area such as transportation may lead to a cost increment in another area like inventory. An important strategy in logistics design therefore is to arrange all the required activities so as to minimize the total cost of providing desired level of customers' service.

Lancaster (2003) posits that channel distribution management as the inter-relationship of all the factors which affect the flow of both goods and services necessary to fulfill orders. This flow starts when the customer decides to place an order and ends when the order is delivered to the customer. He further stressed that physical distribution involves not only the actions required to fill a particular order but, also the actions to prepare one to meet needs. Distribution channels are evaluated using three major criteria: effectiveness, efficiency, and adaptability. There is little research in the Indian context on the factors that affect channel effectiveness and efficiency. A good understanding of the factors will aid in modifying channel structure in response to changes in the channel or environment (Coelho & Easingwood, 2008).

Limitations to Effective Channel Management

According to Gilliland (2004), a major challenge in channel management is keeping channel members motivated to support the principal, especially when markets are tough. Channel member profitability is a major driver but not the only factor affecting channel member satisfaction and motivation. Skilled channel managers make concerted efforts to measure and monitor channel profitability and channel members' return on investment (ROI). In addition to ensuring healthy ROI, firms utilize a variety of financial and non-financial incentives to motivate channel members. Channel incentives can range from credible channel policies, market development support, supplemental contact, high powered incentives, and end-user contact Research is required in the Indian context about the motivational effectiveness of various types of channel incentives. Factors that negatively influence the physical distribution management strategies according to Offiongodon (1991) can be categorized as obstructive distribution parameters (ODP) include the following:

- Administrative bottlenecks in the collection and handling of products.
- Unnecessary hoarding of products.
- Inadequate storage facility.
- Numerous and unnecessary middle men.
- Problem of processing and packaging.
- Insecurity on the Nigerian roads.

There is no doubt that over the years, a number of problems have arisen from economic policies in Nigeria that can obstruct distribution strategies adoptable by organizations. These problems, which have adversely affected the management, marketing, distribution and productivity of enterprises in the economy, have also negatively affected innovative distribution strategies in our production systems.

Channels and Channel Layers

The channel of distribution is a system that helps bringing products from manufacturer to final customer (Zikmund & d'Amico 2001). Companies use distribution channels to ensure that their product will reach customers at the right time and convenient location. Distribution channels involve intermediary organizations that help in a process to deliver products to end customers.

Channel level is a layer of intermediaries that are involved in process to perform channel tasks. (Kotler, Armstrong, Wong & Saunders 2008)

i. Intermediaries: Companies use intermediaries to add value to their products and to ensure that products will be closer to target market. Intermediaries usually have sales experience, networks and customer skills that can offer the company more value than they can achieve by doing everything on their own. Intermediaries also play an important role in matching supply with demand by taking on larger quantities of similar goods from producers and breaking them into amounts desired for customers, providing them to customers in right time and location.

ii. Channel functions: Distribution channel involves number of functions that have to be taken on by members of channel. These functions should be divided between producer and intermediaries in a way that is cost-efficient for the company. Functions related to customers are gathering information about potential customers, conducting marketing research in order to be able to plan along and react to changes in market, finding and contacting prospective customers and matching and promoting company's products to customers. Negotiation and sales are related to the buying process and new customer relationships. Delivery and after sales service are important functions related to customer's satisfaction with the product. Each distribution channel also requires financing and risk taking functions that have to be agreed between channel members.

Physical distribution involves planning, implementing and controlling of the process of getting the final product to final customer in the right place and at the right time. The focus in marketing logistics has shifted from trying to find the most cost efficient solutions to bring final goods to customers to customer-centred logistics which focuses on satisfying demand in the market and creating customer value by fast delivery, improved service and reasonable prices. The major physical distribution tasks are warehousing, inventory management and transportation. Each of these tasks needs to be managed to ensure proficient delivery of products.

iii. Channel organization: Channel members must be given certain roles to ensure that channel performs well and to be able to manage channel conflicts. Two types of channel arrangements can be distinguished where each arrangement has their own roles of channel member and practices to deal with conflicts.

iv. Conventional marketing channel: In conventional marketing system each channel member works independently and seeks to maximize own profits. Therefore there is no certain control system in this channel to solve common conflicts. According to Dunne, Lusch and Carver (2011), conventional marketing system is highly ineffective and unproductive method. Conventional channel gives one intermediary a privilege to control others by use of power and resources. Channels are controlled by authoritative control mechanism, meaning that the most powerful members have the right to control and make decisions.

v. Vertical marketing systems (VMS): In vertical marketing system, producers, wholesalers and retailers act as an integrated system where members depend on one another and cooperate together for common interests. Vertical marketing has three types of systems – corporate, contractual and administered channel. Corporate VMS acts under single ownership, while contractual system consists of independent organizations that manage conflicts through mutual contracts and administrated VMS is controlled by one or few dominant channel members.

vi. Direct distribution: Direct distribution means that products are distributed directly from manufacturer to consumer. Companies sell their products directly to customers at customer's home, over phone, on internet or at any other public place (Raatikainen, 2008). Selling through internet, catalogues and telesales saves costs of maintaining retail stores and utilities and improves speed of delivery and logistics functions within the channel. Direct distribution also gives companies better access to buyers and selling through internet lets them access markets even on global level.

vii. Internet: The fastest growing form of direct distribution is online-marketing or selling products through Internet. Internet connects customers and producers around the world and therefore increases market opportunities for companies. Most of the companies have their own websites and provide customers with opportunity to buy their products online. Companies are able to place wider selection of products and more specific details about products on the internet. Most importantly, it also enables companies to collect information about clients and their shopping behaviour which can support their further marketing activities and product selection. (Levy & Weitz 2009) .

Customers benefit from online shopping by having the convenience to browse through the products and make sales decisions without time and place limitations, such as store opening hours or distance to shopping mall. Customers receive greater selection of products and more information about product functions online. Internet also offers customers opportunity to browse similar products and compare functions and prices.

Internet provides customer with greater control over deciding on desired products and browsing only the websites they want to visit. Internet gives customers all marketing power, as it operates for customers benefit. Customers can quickly exchange information about e.g. great online deals or disappointing service. This kind of "free marketing" can be successful for company if current customers are satisfied, however one late delivery or mistake in billing can cause rapid spread of negative comments, and if company is not there to respond to the issue immediately, it can destroy their business (Blythe, 2008)

viii. Website: The most common way of entering online market is to open own website where customers can see company's products, access detailed information and even make purchase orders. Corporate websites serve customers by providing detailed product information, telling about company and their future goals and answer customers' questions, whereas marketing websites lead customers to purchasing decisions by displaying colourful product images, emphasizing on their features and special price offers (Kotler et al. 2008)

The appearance of website should match customers' expectations on e.g. brand and quality and get new customers interested. Low-quality and unappealing websites can damage customer's impressions about company's product whereas well thought-through and professionally design websites will help company to promote their brand and customers to gain trust in company's products. (Berkley, 2007). Companies should yet considerate that having their web store is time consuming process. Websites must be updated regularly to keep customers interested, and company should be able to answer to inquiries as well as respond to comments in short period of time. In addition to being present in their websites, company must also take care of storage of goods, delivery process and customers relationships.

ix. Social media and web- presence: It is advantageous for company to create and maintain strong web presence through e.g. social media, blogs and online advertising. According to Gerry Dupont, co-owner of Red Oak Properties, it is important to invest time and research information related to product and to appear to potential customers more than a resource base than salesperson. In this way, company develops customers trust and builds long lasting customer relationships. (Dupont G., Social Media Content)

Social media marketing is a new form of online distribution that has emerged in market during past years, due to the rapid growth of internet marketing. Social media gives companies advantage to be present in frequently visited social media sites, such as Facebook and Twitter, and appear close to their customers, providing them with information of company's products and activities. Social media is a great platform for advertising, as different demographic groups from different countries can be targeted same time. Interest boards, such as interest and Stumble Upon are great way to attract customers' attention and brand awareness. These websites connect people with similar interests in physical items, such as clothes, jewellery, food, sports equipment etc. They share interesting designs, technologies and ideas with others, creating picture boards of certain products. Although the users of these websites just "hang out" there to have their time well-spent and new ideas collected, these sites are however intentionally made for hidden marketing purposes. Behind each picture there is a link that will lead directly to the web store or blog for more information and ability to purchase.

Blogs are yet another type of online marketing that first attract potential customers by providing a story behind a product or something related to the usage of the product. Blogs are more personal than any other way of marketing, as they usually give insight not only in company's activities, but even in the personal life of blog writer, often producer or designer of products. Blogs give opportunity to interact with customers as friends and therefore gain their trust in products and company. Blogs are however very time-consuming activity, as they require to be kept up-to date and regularly maintained. Customers expect that their comments on stories will be noticed and answers to their questions will be provided in short period of time. (Piscopo, commarts.com)

Marketing Efficiency: Marketing efficiency is the ratio of value addition for the goods to their marketing cost (Shepherd, 1965), where the value added is the difference between the costs of goods purchased by a firm and price for which it sells those goods (Khols and Uhl, 1967).

In the present study, Value added (V) = Selling price of the product – Raw material cost where, raw material cost is the cost of total cost of materials utilized for manufacturing different products; and the total marketing cost (I) comprised procurement cost, processing cost and distribution cost of products. Thus, Index of marketing efficiency (ME) = (V–I)/I

Theoretical Framework

According to Stern and Reve (1980), channel theory is divided into two orientations: economic and behavioural approaches. First analyses the efficiency of the channel, studying issues like channel design and structure. The latter is sociologically oriented, focusing on power, cooperation, satisfaction and conflict in channels. This study was based on the following relevant theories;

- *Depot Theory*: According to Aspinwall's (1958) Depot Theory, goods move toward consumption at a rate established by the final consumer's need for replacement. As detailed, replacement rate is inversely related to gross margin, services required, search time and consumption time. Thus, knowing replacement rate provides knowledge of the other characteristics determining rate of flow. Alderson (1957) developed the postponement part, arguing that changes in modifying products and stocking inventory should be postponed to the latest possible point in the marketing flow because of reduced risk. Bucklin (1965) added the corollary theory of speculation that changes in form and holding inventory should be made at the earliest possible point in the marketing flow to take advantage of economies of scale. Thus, speculation takes advantage of the lower costs of modifying goods early to obtain economies of scale resulting in mass production, while postponement deals with reducing risk by modifying goods at the latest point for segmented demand resulting in today's mass customization.
- *System Theory***:** Physical distribution can be viewed as a system of components linked together for the efficient movement of products. Using a system approach to describe physical distribution, the components include; customer service, transportation, warehousing, order

processing, inventory control, protective packaging and materials handling. These components are interrelated, hence: decisions made in one area affect the relative efficiency of others. Viewing physical distribution from a system's perspective can be the key to providing a defined level of customer service at the lowest possible cost.

METHODOLOGY

The population of the study comprises of 1103 members of staff drawn from twenty four small and medium scale manufacturing firms in Enugu state. The researchers used the Yaro Yamene's formula to select 294 members of staff as the sample size. A five point likert scale questionnaire that covered the different areas of distribution channel management strategy was used to elicit response from the respondents. The statistical tool used for data analysis is the Mann Whitney U test using the 20.0 version of statistical package for social sciences (SPSS). Mann Whitney test which is a non-parametric equivalent for t-test may be described thus;

$$U_1 = R_1 - \frac{n_1(n_1+1)}{2}$$

Where R_1 = Rank of the sample size, n_1 = sample size, U = Mann whitney test

RESULTS, MARKETING IMPLICATIONS AND RECOMMENDATIONS

Mann-Whitney Test Output for Hypothesis One

Ranks

	VAR00002	N	Mean Rank	Sum of Ranks
VAR00001	1.00	10	7.10	71.00
	2.00	10	13.90	139.00
	Total	20		

Test Statistics[a]

	VAR00001
Mann-Whitney U	16.000
Wilcoxon W	71.000
Z	-2.570
Asymp. Sig. (2-tailed)	.010
Exact Sig. [2*(1-tailed Sig.)]	.009[b]

a. Grouping Variable: VAR00002
b. Not corrected for ties.

Mann-Whitney Test Output for Hypothesis Two

Ranks

	VAR00002	N	Mean Rank	Sum of Ranks
VAR00001	1.00	8	5.75	46.00
	2.00	8	11.25	90.00
	Total	16		

Test Statistics[a]

	VAR00001
Mann-Whitney U	10.000
Wilcoxon W	46.000
Z	-2.310
Asymp. Sig. (2-tailed)	.021
Exact Sig. [2*(1-tailed Sig.)]	.021[b]

a. Grouping Variable: VAR00002
b. Not corrected for ties.

Discussion of Result and Marketing Implications

The result obtained from the tables above shows that the p-value (Asymp. sig) in both the first and second hypotheses are greater than the level of significance (i.e 0.10 and 0.21>0.05 respectively), thereby leading to the acceptance of the null hypotheses. Thus, it can be said that the extent of channel management application in the distribution of manufactured goods in Nigeria is still low and that the system of distributing manufactured products in Nigeria has not contributed meaningfully to efficiency and diversity. However, its contribution to distribution efficiency can be said to be more than on diversity.

The situation above requires that marketing strategist in SMEs should improve on the distribution channel mix by initiating a well-coordinated shift from physical to other channels of distribution especially in this era where internet marketing is gaining wide acceptance across the globe and in Nigeria in particular.

Recommendations

The following recommendations are made in this paper:

i. Distribution Channel modification must be performed periodically because of the ever changing market environment like increased activities of competitors, changes in demand, customer preferences and taste etc.

ii. Manufacturing companies should monitor the activities of channel members in order to keep it in conformity with the marketing strategy and goals of the organization.

iii. Cordial relationship must be initiated and maintained with distribution channel management members especially since distribution cannot be effective & efficient without them.

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