

# Distribution channel management



## **CHAPTER 1: Introduction**

This chapter will introduce the topic, specify the key aim and objectives of the dissertation, discuss the research approach and state the dissertation outline. The key aim of this chapter is to establish the foundation for the research topic by giving out basic information.

### **Introduction**

The research is about study of distribution channel management at Dell Computers, UK. The dissertation is more practical in nature, studying the Distribution Channels of Dell, both at a strategic and an operational level. I would be analysing the business function on its efficiency and effectiveness, comparing with the other industry performers. I would mostly be comparing the function against Sony Electronics, the most respected name in multi-channel distribution network; Acer, pioneer of value computing products and proprietary brands like Advent.

Dell Inc. is a multibillion dollar, multinational technology firm that manufactures, develops, sells and supports personal computing and computer related products. Dell has seen a rapid growth to become one of the top three vendors in the PC manufacturing industry, and has seen a substantial increase in share price and market value.

While many other companies were unable to handle the demands of the competition, Dell has proved successful in such an environment.

The main key to success to Dell has been its two innovative practices that is direct sales and build-to-order business model. This model is simple as a concept but highly complex to execute, especially in the present conditions

of rapid growth and change. Dell has continually renewed and extended its business model while striking a balance between control and edibility.

Dell made changes in its design, manufacturing, procurement, and logistics processes to reduce the costs, and to speed up the entire distribution system. It has expanded into International markets and it started making notebook and server product lines which has led to extraordinary profits for Dell, and has given a great market value for the company. Dell has reached sales of \$18.2 billion by the year 1998, with a profit of \$1.46 billion, and Dell's market share in the PC market grew from 3% in 1995 to 9.2% in the year 1999 with stock price increasing by 40 times. Dell's market capitalization has reached \$100 billion.

### **Research aim and Questions**

The primary purpose of my research work is to analyse the role distribution channels play in the functioning of a business, both in the long run and in the short run. My study is to present a detailed description of the unique distribution channel adopted by Dell Inc., analyse its efficiency and effectiveness, identify possible loopholes and put forth recommendations for development.

My study is being undertaken with an aim to answer the following research questions:

- How are the various distribution channels organised within Dell Inc.?
- How does it compare with its competitors?
- How effective and efficient is this channel management at Dell?
- What can be done to make it better?

The four research questions are the guiding blocks of my entire research and all of the work would be keeping them in view.

**Distribution Channels within Dell:**

I would be looking at Dell's innovative distribution channel management which has literally revolutionised the importance of Direct Marketing in the consumer electronics space. Direct marketing is still the primary distribution mechanism within Dell. I would be documenting the evolution of this concept within Dell right from its customized sales regime during PC's Limited to the complex and sophisticated systems that it employs currently. I would be presenting a visual of the entire distribution network that it stands at today.

**Comparison with its competitors:**

I would be comparing the dynamic distribution systems of its arch rivals. Sony, Acer, Advent and HP - Compaq are the brands that I would be concentrating upon. I would be looking at the strategies adopted in different economies, though my primary concentration would be on the English markets.

**Efficiency and Effectiveness:**

I would be conducting an efficiency and effectiveness test of Dell's powerful distribution network against its competitors. This would be an empirical study. I would be concentrating on the parameters of Customer Satisfaction and Vendor relationship management.

**Recommendations:**

Finally, I would be putting forth recommendations for future developments along with the cost benefit analysis of such implementations.

**Research approach**

The study is conducted by collecting secondary data and primary data.

Secondary data is collected from books, journals, government websites, company documents whereas primary data is collected by means of survey questionnaire distributed among channel partners and the end customers.

Participants of research would be intermediaries in the distribution network and the end customer. In order to select the participants the study has made use of stratified random sampling method in order to make sure that major demographic segments are represented while selecting the samples (Rao & Skinner, 1996).

Questionnaire design consists of two parts. The first part contained the demographic information while the second part dwelled on each of the subjects perception on each variable using five point likert scales from 1 (" Strongly Agree") to 5(" Strongly Disagree").

The study did not require any assistance from a third party or any other institution. In order to collect data the study made use of web portal survey to distribute survey and get responses. The system was designed in such a way that the respondent have to submit all the answers. Out of 60 questionnaires, responses for 50 surveys were obtained. The duration for the survey was kept as two weeks, a reminder mail was being sent to the respondents at the end of week one to remind them.

**Importance of the study**

Organizations have been undergoing strategic changes over the past decade. More so in the past couple of years. The current recession has proved that risk management and strategic planning are most vital for an organization's long lasting and self-sustaining performance. My work will strive to highlight one such areas of strategic thinking and inform the senior management about the benefits involved.

**Research Scope**

My work would primarily be concentrated on the UK market. Though Dell is a global corporation with intermediaries present across the globe, all working towards forming an effective value chain to maximize business potential and ensure efficiency in operations; UK being the second biggest market after the US will be a general approximation of the entire organizational behaviour. Furthermore, the cosmopolitan nature of London and demographic diversity ensures that it would be a close estimate of the general population.

**Limitation of Research**

I intend to undertake my research as comprehensively as possible. As in any research work, inherent are some unavoidable drawbacks in my study. Few of them are:

- **Financial and Time Constraints:** As outlined before, the scope of my work is limited to the English market. Financial and time constraints of my semester mean that I'm not able to conduct a global research that would be more apt in this case.

- Personal bias. Most of my work is conducted through a personal observation method; as such it is prone to my personal bias. However as the person who is to do the entire research right from formulation of research questions to recommending solutions, I would be most qualified to comment on the topic.
- Information Constraints. Distribution channel model is a sensitive piece of company information. Though I have secured access to Dell, wherein I could do all the data mining myself, the extent of information that I would be able to muster about the rivals' model is still to be seen.

### **Dissertation outline**

The structure of the dissertation is as follows

Chapter 1: Chapter 1 encompass introduction to the topic, followed by brief background into the research topic. This beginning chapter also lays bare aims and objectives of the research followed by structure of the thesis. Apart from that this chapter also gives information on the research approach adopted and the limitations of the research.

Chapter 2: The literature review section of the dissertation explores the definition of distribution, channel, and distribution channel and distribution channel management. Apart from that the section also examines the activities and the levels of distribution channel. The latter half of the section focuses on the distribution strategy adopted by Dell, Sony and Acer. The final section compares the distribution strategy by all the three players.

Chapter 3: The thesis then moves on to methodology section wherein the research model, research framework and data collection methodology is

discussed. Questionnaire method is used to collect the necessary data from the consumer.

Chapter 4: This chapter explores data findings

Chapter 5: This chapter presents the conclusion.

Chapter 6: This includes references using Harvard referencing style

Chapter 7: This includes the Appendix

### **Summary**

The chapter introduced the topic of the dissertation, specified the key aims and objectives of the research. Discussed the research approach in form of secondary and primary data collection through the means of questionnaire and clearly stated the limitations of the research in brief. The chapter also outlines the research structure specifying the contents of each chapter.

### **Chapter 2: Literature Review**

During my research, I would primarily be looking towards the concepts of Distribution Channel and its management. I would be guided by the various contributions in the field, though my work would primarily be influenced by the theories and suggestions of Philip Kotler in the area. A Professor of Business Studies at the Kellogg's Business School, Kotler is often regarded as the 'Father of Modern Marketing'. My work also coincides with various other management thinking like Consumer Behaviour, Relationship Management, Marketing Mix and Optimization, among others.



**Definition****Distribution**

Kotler (1996) states that distribution is a key element in the marketing mix (place amongst the 4P's). It is the systems and practices in use which make a product or service available to the consumer of such a product or service.

**Channel**

Channel is defined as " a set of interdependent organizations involved in the process of making a product or service available for consumption or use" (Gorchels, West, & Marien, 2004). It can also encompass physical movement, warehousing, ownership of the product, presale transaction, post-sale activities; order processing, credit and collections; and other different types of support activities (Gorchels, West, & Marien, 2004).

**Distribution Channel**

The Distribution Channel is the chain of intermediaries, each of them passing on the product or service to another intermediary until it reaches the consumer.

The business dictionary defines it as

" The route by which a product or service is moved from a producer or supplier to customers. A distribution channel usually consists of a chain of intermediaries, including wholesalers, retailers, and distributors, that is designed to transport goods from the point of production to the point of consumption in the most efficient way" (Dictionary, 2010)

Another definition of Distribution channel states

" A group of independent and interdependent organizations involved in the sale and movement of goods and services to the end users may be called a distribution channel or network" (Gorchels, West, & Marien, 2004).

More specifically, a distribution channel is:

- The transfer of goods from manufacturer to the end user.
- Route of a company for distributing the goods.
- The process of moving goods from the manufacturer to the consumer.
- A supply chain consisting of all parties in between production to the end user.

### **Types of channel members**

The activities in the distribution channel can be carried out by the marketer himself or it can be carried out by specialist organizations. The specialist organizations and the channel members can be categorized into two types.

- Resellers
- Specialty Service Firms.

Resellers are the companies which usually buy and take the ownership of the products from the manufacturer with the intention of selling to end consumers. An organization can have one or more than one reseller in the chain. The network or chain of resellers is known as reseller network. The resellers can be further classified into:

**Retailers:** A retailer sells the product directly to the end customer.

**Wholesalers:** Wholesalers buy the products from manufacturer or other wholesalers and then they sell the products to the retailers.

**Industrial Distributors:** They are the ones who sell products from one business to other, they are suppliers who buy the goods and sell it to another firm.

Specialty service firms are organizations that do not take the ownership of the products. They also provide additional services along with the products.

Specialty firms can be:

**Agents and brokers:** They are the firms which bring together the suppliers and buyers and mediate the sale and they charge a fee for this kind of service.

**Distribution service firms:** They provide services which help with the movement of goods in the distribution channels like transportation, processing and storage of goods and products.

**Others:** They are the firms which provide other services to the channels in distribution like insurance, routing assistance etc.

The distribution channels consist of many parties among which each of them is trying to meet their objectives. Relationships between channel members should be strong with each other's especially on which they are depending for the further distribution of product.

### **Levels**

The arrangement of the distribution channels can be classified into two types:

- Independent channel arrangements.

- Dependent channel arrangements.

Independent channel arrangements:

In this type of arrangement the channel members negotiate deals with others which do not result in the binding of the relationships. Channel members are free to make arrangements which they feel is in their own and best interest. An individual member decides what is best for them and not the entire channel.

This is also called conventional distribution arrangement and often significant conflict as each member decides what is best for him and not in concern with the entire channel

There are four levels of distribution channels. Channel 1 is called the direct marketing channel which is the distribution of products or services from the manufacturer to the customer. The best example for this channel is Dell which does not makes use of any intermediaries to distribute its products to end customers; there are no retailers, agents or wholesalers. The channel does not have any intermediaries. This type of channel helps to eradicate the excess cost and also helps to have good control over the quality and marketing.

The other three channels fall in the category of " indirect marketing channels".

The second channel has one intermediary, if the market is a consumer market the one intermediary is basically a retailer. Electronic consumer goods market of UK is an example of second type of channel arrangement. In

this type of distribution arrangement the companies sell good to large retail chains, example would be Sony, Canon, and HP selling their electronic goods to large retail chains such as Dixons. These retailers in return sell the goods to the end customer.

The role of the wholesale in this channel is to buy the products at bulk from the manufacturer and then sell the same to retailer in smaller quantities. This model works best for retailers on small scale and not for big chains such as Dixons. This type of distribution channel is best when there are large number of small retailers and not big companies. Example in this case would be the medical drugs distribution market in the UK.

The fourth channel has added level to it in the form of agents who work as intermediary between manufacturer and wholesaler. The agent acts as representative for both the sides. This works in textile market.

A direct distribution channel is where a company sells their products direct to consumers. While direct channels were not popular many years ago, the Internet has greatly increased the use of direct channels. Additionally, companies needing to cut costs may use direct channels to avoid middlemen mark-ups on their products. Distributors, wholesalers and retailers are the primary indirect channels a company may use when selling their products in the marketplace. Companies choose the indirect channel best suited for their product to obtain the best market share; it also allows them to focus on producing their goods. Though, in practicality, a number of other players exist, they can be generalised to the above. The specific channel of distribution adopted by a company depends, to a major extent, on its

business model, the industry type and the scale of its operations. As an Instance, Sony has its own set of company operated exclusive showrooms. The strong brand equity of Sony, the scale of its business and clearly identifiable product differentiations that it enjoys with the consumers, allow it to leverage on its economies of scale and scope by operating its own outlets. Directly, this result in better margins for the company and indirectly it helps building on its already demanding brand leadership. Dell, on the other hand, relies more on online sales. This is because of the organization of its service delivery utility. Dell's business model is based upon its centralised manufacturing facilities, rather than the nuclear organization at Sony. Online sales suits such a strategy by negating the high costs of transportation and inventory planning issues involved. A manufacturer selling a physical product might require three channels: Sales Channel, Delivery Channel, and Service Channel. In Our case, Dell uses telephone and internet as sales channels, express mail services as the delivery channel and local repair people as its service channel.

### **Distribution Channel Activities**

Distribution includes different range of activities (Richard Gay, 2007)

- Linking many suppliers to provide wide range of consumer choice
- Assist the exchange process - identify the needs of the buyer in the context of product categories, quantities, range etc. and devise manufacturing, inventory and packaging schedules to fit.
- Marketing information: This encompass collection, distribution and analysing marketing research information such as the past sales data about the players within the organizations marketing environment.

- Promotional activities- This involves setting of promotional objectives and activating the various elements of the marketing communications mix and measuring their effectiveness, this will encompass identify and communicate with prospects.
- Pricing: Deciding on the sales terms and conditions at each stage of the value chain
- Risk management - This includes analysis and resource sourcing required for involvement in the channel , the degree of control and influence and the potential benefits such as revenue and profit generation.
- Physical Distribution Management - It includes the transportation all aspects of warehousing management and information flows.

Other Activities that may be part of the distribution channels are as follows:

- Order Generation.
- Handling of Goods.
- Shipping of Goods.
- Storage of Goods.
- Display of Goods.
- Promotion of Goods.
- Sale.
- Feedback.

### **Distribution Channel Management**

Distribution Channel Management is all about getting the product or service to the right people at the right time under the constraints of profits, efficiency and effectiveness. Successful marketing does not end when a

business has developed a product or service and has found its appropriate target audience with a view to selling it at the 'right price'. The next issue that needs to be faced is how they are going to distribute and sell this product/service to these people- the consumers. When a product/service is purchased by a consumer, it may have been bought directly from the business, or it may have been through a number of intermediaries (wholesaler, retailer, etc.): these are known as distribution channels. Small businesses need to acknowledge the different types of distribution channels to utilize sales potential.

Distribution channel management involves a lot of channel decisions, strategic alternatives and numerous linking concepts, all of which would be explored in my research paper.

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The PC industry is driven by rapid technological improvements in components, particularly microprocessors, other semiconductors, and storage devices. The improved performance of hardware has been matched historically by increased complexity of software, creating demand for the latest hardware.

This means that time is a critical competitive factor in the industry in two ways:

- Firstly, excess inventory loses value (at an estimated 10% per month ;)  
and costs money;



- Secondly, products incorporating the most advanced technologies are in high demand and carry a price premium.

As a result, companies that minimize inventory and bring new products to market faster can reduce costs, increase market share, and maintain higher margins. Two factors come into play in determining the ability of PC companies to manage inventory and introduce new products. First is the standardized, modular nature of the PC. PCs are built from standard components, using common architectural interfaces determined largely by Intel, Microsoft, and, earlier, IBM. PC makers also can outsource much of their production and purchase components from a well-established production network of contract manufacturers and components suppliers. This makes it quite easy for PC companies to introduce new PCs with the most advanced technologies. By the 1990s, PC makers could no longer gain much of an edge by virtue of design and manufacturing, as everyone had access to the same technical information and supply base. The difference among PC companies was determined increasingly by the second factor—the structure of distribution.

The traditional distribution system of the PC industry is an indirect model often referred to as "the channel". The PC maker sells its products to distributors, who buy products from many manufacturers and then sell them to a variety of retailers, resellers, system integrators, and others, who sell products and services to the final customer. This distribution system was an effective means for distributing high volumes of PCs with a variety of configurations to reach a broad customer base. However, it had inherent weaknesses that left it vulnerable in a time-based competitive environment.

First was its reliance on market forecasting to drive production. Even the most successful PC makers, such as IBM, Apple, and Compaq, were chronically bedevilled by their inability to accurately forecast demand in a market driven by ever shorter product cycles. They were either caught with short supplies of hot products, causing them to lose sales to competitors, or stuck with excess inventories of slow sellers, which clogged the distribution channels and often had to be sold at a loss to move them out. Even with the best forecasting, the indirect model was plagued by the need to hold inventory at each step.

In the early 1990s, it was common for PC makers to have up to 90 days of inventory on hand and in the channel. The high inventory costs and lack of responsiveness of the indirect channel meant that there was an opportunity for someone who could find a way to circumvent the channel.

The company that seized this opportunity was Dell, which pioneered a new business model based on selling PCs directly to the final customer, and building the PC only when an order was received. Selling directly removes two links in the supply chain where inventory could build up and also enables Dell to know its final customers, provide better service to them, and promote repeat or expanded sales to them.

Build-to-order production allows Dell to introduce new technologies as soon as customers want them and makes it possible to adjust production to demand very quickly. It also means that Dell does not purchase components and assemble PCs until it has received payment from the customer, giving

the company a negative cash conversion cycle in which it receives payment from customers before it must pay suppliers.

The current environment for the computer hardware industry is shaped by several macro forces. Primarily, Dell and its competitors are influenced by economic, demographic, technological and national forces. Government, social, physical and national forces peripherally affect the computer hardware industry to varying degrees. The commoditization of the personal computer-a vital tool for business and consumer. Customers- are a key driver for the economics of this industry. Corporate spending accounts for 80% of all technology spending, and economic conditions decreasing business capital expenditures has a negative and direct impact on the computer hardware industry. While this industry is mature in the U. S., leading to decreased growth expectations, computer spending by other countries around the world will likely fill this void.

Pricing in the computer manufacturing industry is extremely competitive. IT reflects the rapid pace of technological change and decreasing PC costs. Since 2000, the prices of chips and disk drives declined and the standardization of primary components of PCs led to a decline in PC prices. Direct sellers, including Dell, have traditionally been able to under-price indirect sellers in the industry including Compaq and HP. However, most PC vendors now offer a desktop model for less than \$500 and a laptop for \$700. Key success factors for companies in this industry continue to evolve as the industry matures. Specifically, they include:

- Competitive prices

- Superior relationships with suppliers
- Product customization for business and consumer customers
- Quality customer service
- Excellent cost structure

### **Channel Issues**

Some of the channels issues that the companies face are as follows

1. Product related issues
2. Promotions related issue
3. Pricing related issues
4. Target market related issue

#### **Product related issues:**

The nature and type of the product decides the distribution option that should be chosen for the product. A few products require special handling. Ex. Flowers, Fragile goods etc.

#### **Promotion related issues:**

The type of promotions that are required to sell the products to the customers also decides the distribution options; there are products which require an extensive contact of the sales person with the customer like automobiles etc. and there are products which require no sales assistance from the sales person like milk etc.

#### **Pricing issues:**

The price at which the marketer desires to sell their product also decides the distribution option for the channel if a product is priced really less it cannot

have many members in the distribution channel as each one of them looks at making their own profit in the channel.

**Target market issues:**

The distribution channel is successful only if the product can reach the right customer. Choosing a distribution channel is the path to reach the target customer. A key decision in setting of a channel arrangement is for the marketer to choose the approach to reach his target customer in the best possible manner.

**Dell****Company Background**

Dell Inc. is a multibillion dollar, multinational technology firm that manufactures, develops, sells and supports personal computing and computer related products. Based out of Texas, it employs over 75, 000 people globally and is amongst the biggest players in the personal computing space. With revenues crossing 60 billion dollars in 2009, it is a Fortune 500 listing. Dell is a brainchild of Michael Dell, when he was a student at the University of Texas. PC's limited was started by him with a meagre capital of \$1, 000. The company produced its first computer in 1985, the " Turbo PC" sold for \$1, 000. Powered by an Intel 8088 compatible processor running at 8 MHz, it was the start of the most successful story in the modern computing space. Pc's Limited offered these machines in a variety of specifications, customised to each order amongst a pre-defined choice sets. Though not the first company to use this model, it was the pioneer to succeed using it. In its first year of trading, the company grossed over \$ 70 million.

In 1988, the company was renamed as " Dell Computer Corporation". In 1987, the company expand overseas with a fully functional service and assembly centre in Ireland. Within the next few months, the count reached eleven. In June 1998, Dell became public with a 50 million dollar Initial Public Offering, one of the biggest in its times. In 1990, Dell test marketed a multi-channel retail distribution strategy with little success and was forced to return back to its direct marketing channel. In 1992, Dell featured in the Fortune 500 list for the first time. In 1992, it started on line sales, by offering its products, initially through its own website and later on through various partners and compare websites. In 2002, Dell expanded its product line by foraying into the consumer electronics segment. It also started manufacturing computer accessories with the launch of the dell branded home and office printers. In 2003, the company was named " Dell Inc." so as to parallel its brand name with the variety of product offerings that it started. In 2005, Dell saw its international sales exceeding its domestic ones for the first name. The company was now a truly global performer, featuring in the top 5 power brands, both in the emerging markets as well as the developed economies (Dell Inc., 2006).

### **Organizational Structure**

Dell Corporation's organizational structure is a functional, decentralized structure. The company encourages different departments and functional components to contribute ideas to enhance the strength of the organization. The hierarchical structure provides defines the various functions provided by D