

Assessment of influence of distribution channels on buying behaviour of industrial customers.

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Abstract

Industrial customers normally buy products based on technical specifications suitable for specific applications. As compared to the customers of consumer products, the buyers of the industrial products are small in number. But the products they buy have higher prices than consumer products. The manufacturing process of industrial products involves high skill and also the raw material and components used are costlier. Hence they result in a higher price as compared to the consumer products. To provide support of delivery just in time and also in the exact quantity, the distribution channels are helpful. These channels may involve intermediate links of agents and distributors. In this study, the researcher has tried to assess the influence of distribution channels on buying decisions of industrial customers. This has been done, by a review of available literature as well as an empirical study carried out with actual industrial users.

Keywords: Buying Behaviour, Channels of distribution, Market share, Agents, Distributors, Distribution Channels

Introduction

Industrial products are the goods purchased for use in producing other goods and services. They are classified as Raw Materials, Components, fabricated parts, machinery, equipment, accessories, tools, and consumables.

While buying industrial products, the customer has to take into consideration of complete understanding of the specification of the products with the tolerance limits, the required standards, sometimes international standards, and in case of electrical products, safety requirements as well. Unlike in the case of consumer products, there is nothing as seasonal demand for industrial products. However, the outlook of the industrial scenario affects the demand both in the domestic as well as export market.

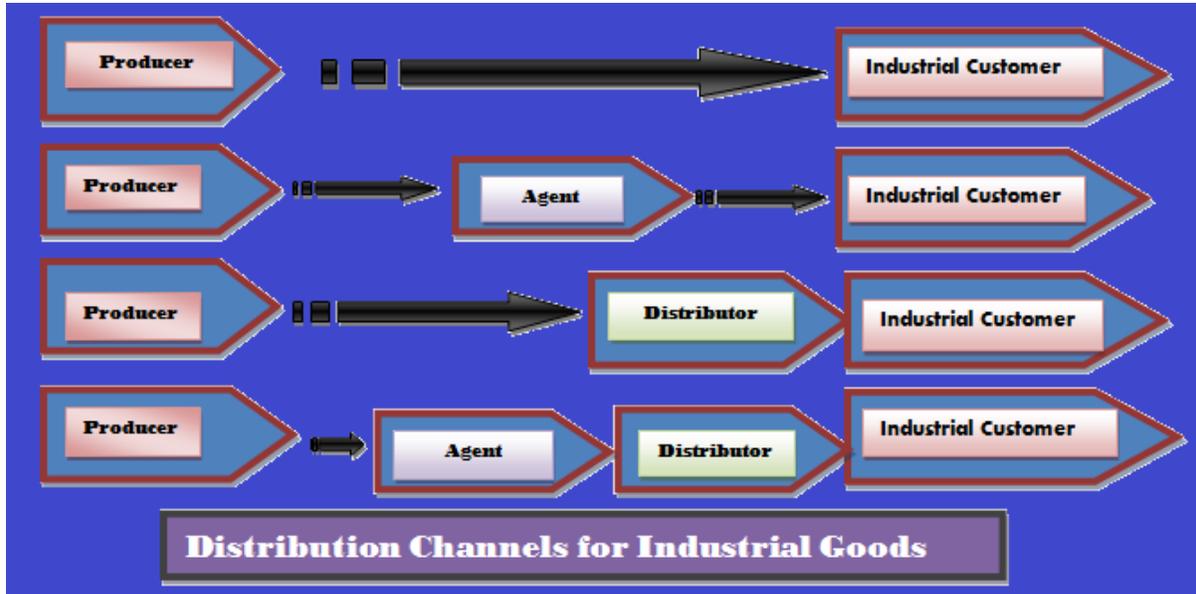
For industrial products, the buyers insist upon relevant test reports for the products to be purchased and the supplier needs to carry out some specific tests as well to qualify as a vendor. In some cases, over and above test reports, customers ask a supplier to submit samples for trials and approvals, which normally is followed by pilot trials and subsequently bulk supply as per desired schedules.

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Ideally, the industrial customers would like to get a supply of products directly from the manufacturers and thus avoid the intermediate channels. This may be because of getting products at a competitive price, which is possible due to eliminating the additional price involved at each intermediate step of channels. Any inclusion of intermediate channels adds to the original price since the channels need to be paid the benefits due to their involvement and efforts. However, manufacturers may not be able to cater to the varying demand of a large number of customers. This may involve overhead costs of manpower and logistics which may not be efficient and effective for ultimate customers. Distribution channels are effective in providing this support. Major channels of distribution for industrial goods as shown below:



Elements of channels, such as Agents and distributors are helpful in close contact with the ultimate customers and are also helpful in giving vital feedback and suggestions to the manufacturers regarding improvement of quality, packaging, and complaints. Also, they help in conveying details of company policies and new product information to a large number of customers effectively. Because of the different geographical locations of industrial customers, agents and distributors can help get business from the local customers, by their availability to respond promptly. The manufacturers have to pass on the benefit to these channels for their service, thus sacrificing some profit. But this effectively can secure better market share, thus achieving their top line of business.

Objective: To study the influence of distribution channels on buying behaviour of industrial customers.

Research Methodology used

a) Secondary research method used is based on Published articles.

Various published articles, illustration, and research papers in journals related to the distribution channels and their influence on customers were studied for this research paper. They are listed under "Literature Review" shown below.

b) Primary research using survey of feedbacks from sample customers.

This consists of testing of Hypotheses with the help of actual survey conducted by getting responses from sample customers randomly selected. The selected customers had a heterogenous mix. This was done to check their inclination irrespective of their varied background. The question related to the influence of the distribution channels in their decision was asked and the responses were collected with regard to their agreement using five point Likert scale.

Literature Review

Anthony Achayo Adimo and Owino Phyllis Osodo (2017)¹,in their article, have studied the effect of differentiation of distribution channels on the performance of organisation. The selection of channels could be done as a strategy based on market trends, cost of distribution, applying different distribution channels to suit perfectly the customer needs. The empirical study was carried out using the regression method, with the help of the survey with 112 employees of an African firm in Nairobi, Kenya. The study concluded that differentiation of channels should customer/market-driven. This is to ensure that correct products and services should be available to the customers to avoid paying extra costs. This strategy helps the firm to remain competitive in the market by the virtue of its focus on customer needs. Here, the emphasis is given on the strategy of differentiation of distribution channels which not only improves the company's performance significantly but improves customer relationships as well. Thus, the firm and the customers, both are benefitted from this approach.

Bojan Vapa and Jelena Vapa Tankosić (2019)², in their article, tried to analyse the factors involved in distribution strategies for Small Medium Enterprises (SMEs) because of their international business strategy. The Empirical survey was based on the feedback from 50 companies that export various products from the Republic of Serbia, over six months. The focus of the study was on effective distribution channels to enhance the performance of these companies. They noticed the obstacles in the export business including logistics, knowledge of export documentation, and government policies. Companies from Serbia faced competition with the firms in European Union (EU) countries based on quality, price, and design. The manufacturers should have the optimum design of channels because of effectively catering to the export market of different countries. They can not rely on one single strategy to succeed. Multinational companies resort to help from local agencies and distributors while entering the first time in a particular foreign market. The local experts help them in sharing government policies regarding imports and also the nature of local customers while selecting import products. The firms need to establish responsibilities of the intermediaries involved in distribution channels to avoid conflicts and achieve smooth transactions of exporting their products. The customers who are exposed to the products of multinational companies expect high-quality products from manufacturers. Judicious selection of channel partners plays a key role due to the geographical, social, economical, and political factors in the respective countries. Local customers are happy when they get products of international standards and at a competitive price. Proper information exchange amongst the elements of the distribution channels helps to achieve the best possible deals and performance at all levels.

As per the article “ Distribution and Sales Channels” under “ India-Commercial Guide “ published (2020)³ in the website “ International trade Administration “ , according to the India Brand Equity

Foundation (IBEF), Indian retail market, which stood at \$672 billion in 2017, is projected to grow to \$1.1 trillion by 2021. India's Business to Business (B2B) e-commerce market is expected to reach \$700 billion by 2020. The report says that most Indian manufacturers use a three-tier structure of selling and distribution. It consists of stockists, wholesalers, and retailers. Due to a surge in the e-commerce business, the distributor having an online presence and a fully dedicated website would be advantageous. Many foreign companies initially decide to have a liaison office to establish their presence. Through this office, they try to establish networks, generate awareness of their products, and look for investment opportunities for the future. They have other options, including branch office, project office, partnership firms, or limited company involving foreign direct investment.

Dr. Asif Ali Syed, et al (2020)⁴, in their research paper, analysed the nature of the product and related approach in marketing, specifically switchgear products. The study has been conducted based on descriptive research methodology using a literature review. It was found that the attributes of industrial consumable products are similar to the core industrial products. The effort has been made to find out the difference in approach of marketing between industrial consumable products and consumer products. In addition to this, they have tried to analyse the approach of distribution channels and their influence on the distribution network. Their analysis concluded that there is a huge difference in marketing approach between industrial consumable items and consumer products. This is because industrial products are focused upon their critical nature, reliability, and availability. The specific use and the nature of the market of industrial consumable products need altogether different strategies while designing distribution channel network, they added.

Elisabeta Andreea BUDACIA(1999)⁵, in her article, has elaborated the importance and process of distribution of industrial goods. Types of markets to be serviced for industrial goods have also been discussed in detail. The distribution process should take care of facilitating users to locate products in approachable places, in the desired time, with proper quality, and desired quantity. This effectively helps to improve the productivity of industrial users. As per the researcher, distribution management has two components: Economic distribution (Channels) and physical distribution (Logistics). Studying the customers requires analysis of their needs manifested through production planning and also their complaints regarding the quality of products and suggestions for improvement. Regarding the choice of distribution strategies, certain issues are highlighted in this article: Category of intermediaries acting in different markets, number of distribution circuits, the size of distribution circuits, and finally the structure and rights of each participant in the network.

Emir José Redaelli, et al (2015)⁶, in their study, have tried to explore the transfer of knowledge from manufacturer to distributor. Their primary research method involved the feedback from 199 distributors of transport machines in Brazil. They found that by sharing the knowledge between manufacturer and distributor boosts the performance of the supply chain. The manufacturer can monitor the activities of the distributor to find out the shortcomings and correct them. Regular visits of the manufacturer's personnel to the distributors helps improve product knowledge. Study results showed that the performance of manufacturers can improve by the transfer of knowledge to the distributors and shared benefits to all the members in the distribution channel network. Distributors themselves learn about their mistakes and gaps in the desired performance and prepare a plan of action to tackle them and improve performance. This knowledge transfer and the resultant

improvement in the working of distributors helps achieve desired sales and benefit both, the manufacturers and distributors.

GARY L. FRAZIER(2009)⁷, has tried to study the relationship between physical distribution and channel management, in his conceptual research paper. The focus of this research is on the integration of channels and the transfer of knowledge through them. The physical distribution consists of all the activities related to order placement, warehousing, inventory control, delivery of products, and payment. It is one of the components of channel management, the paper adds. The proper allocation of resources in the channel management results in good customer support. Transfer of knowledge about the product information and customer feedback enhances the performance of the manufacturing organisation. The intermediaries need to have explicit knowledge of the tasks such as ordering goods and receiving. With the mutual understanding and relations amongst the channel partners, the knowledge transfer is excellent and the performance of all the members improves. Diversity in customers increases the complexity of the tasks. In such cases, customised product offering becomes essential. The capabilities of intermediaries in handling marketing the products the behaviour of the end customer, the study found out.

H.G. Dirker,et.al (2008)⁸,in their research article, have discussed how to manage distribution channels with regards to control and instrumentation market, particularly in South Africa. Capturing the customers and the product life cycle simultaneously is the key factor in developing distributor channel network, the article adds. Distributors contribute to value addition and are helpful in wide customer coverage, stocking, making sales contacts, catering to small orders, offering customer support, and gathering marketing information for the manufacturer. They have also elaborated on types of distribution channels for high technology and low technology industrial products. In the case of high technology products, value addition is significant due to the intellectual competency involved by the resellers, they added.

James D. Hlavacek and Tommy J. McCuiston(1983)⁹,in their article, have discussed in detail the nature of industrial distributors. Industrial distributors take possession of the products they sell and assume the role of partner with manufacturers, they explained. They cited the examples of giant companies 3M, Norton, Pfizer who achieve major sales through distributor networks. Products are suitable for selling through distributors in situations where the customer base is large, items can be stocked and sold in small quantities, customers are single owner type, and there is a need for quick supply and service. Market segments also have a significant impact on appointing suitable distributors, such as the agricultural market, construction industry. Market information provided by distributors helps manufacturers do proper analysis and decide policies to reach out to the customers in an effective way. Monitoring the performance and also proper training of distributors is essential in channel management.

Keith Goffin(1999)¹⁰, in his research paper, explored the role of distribution channels and strategies of customer support of five manufacturing firms, including telecommunications, automobiles, vending machines, aircraft, and domestic appliances. He used the case study method. He elaborated that customers need support in the form of installation, commissioning, documentation, repair, and maintenance of equipment, training on the use of the products, telephonic support on queries, and upgrading of equipment. By providing prompt and correct

support, companies can achieve customer satisfaction, beat the competition, and achieve success on new products. To provide effective customer support, the manufacturer may not be in a position to manage it on its own, due to the wide geographical spread of customers and also high overheads while using its personnel. The case study methodology was carried out in three stages, i.e. Preliminary contact- by sending them letters and calling on the phone, Case study visits-one day visits to companies using interviews with customer support managers, and Data analysis. The study observed that the role of customer support was unanimously accepted by the participants from all these five industries. However, the selection of distribution channel was different suitable to the nature of the product and the market, the study concluded.

Milan Andrejić, and Milorad Kilibarda (2015)¹¹, in their paper discussed in detail the efficiency of distribution channels, which affects the cost involved in logistics and customer satisfaction. To measure the efficiency of channels, they have used the PCA-DEA approach, i.e. Principal component analysis and Data development analysis. Efficiency is the outcome of reduced cost and increase in service quality, they added. The analysis is done using the numerical model. After applying the PCA-DEA method, they found that the most efficient channel is the direct channel of distribution which has specialised service providers of logistics support. All the costs, including those for warehouse, transportation, inventory, equipment costs are integrated into this approach. The results of the test highlighted the importance of delivery time and level of service in working out efficiency. These service providers can plan well and coordinate the resources, capacity, and related activities in line with the requirements of customers.

Morris A. Cohen, et.al (1995)¹², in their article, have discussed analysis of distribution strategies involved in the industrial paper and plastic industry. Statistics for this research were derived based on the most favourable distributor policies for choice of channel and inventory control. The structure of distribution networks is evolved based on the interests of manufacturers, distributors, finally the end-users. The high level of service, the bulky nature of the product, and the wide distance between manufacturers and users made it necessary to have a complex network of distribution for the paper industry, it added. The empirical study was based evaluation of the strategic value of redistribution function in the USA for the paper industry. The purpose was to find out the value addition by redistribution channel, how distributors source the products, and the nature of the structure to maximise profit. The researchers used a multilevel inventory planning model of a typical distribution network in their study. This was done to find out the condition under which redistribution provided optimum results about inventory control and cost of distribution. The study concluded that redistribution is profitable to all the members in the link involved, the manufacturers, distributors, and customers.

Vesna Vucemilovic (2015)¹³, in his conference paper, discussed the distribution channels related to construction materials. Because of high transportation costs and limitations due to the geographical location of the producer, the decision about the structure of the channel is important, the paper added. The empirical study involved face-to-face interviews with resellers of construction materials, architects, and engineers in Croatia. Distribution channels need to be continuously modified because of the trends in the market and the adjacent locations. The manufacturer must consider the needs of the customer, the level of service desired, and the price he is ready to pay while deciding the channel structure. Industrial customers are affected by the trends in the economy of the state and government policies. They are small in number but buy in big quantities. Retail sale is important in construction materials, especially bricks and roof tiles.

Hence, manufacturers need to invest in a larger retail chain to cater to the variety of customers, the paper concluded.

Empirical Study

To assess the influence of distribution channels, a sample survey was conducted with 50 customers all over India. The random selection method was used based on available data of visitors during an industrial exhibition in India. The question asked was as below :

According to you, do distribution channels have significant influence on buying decision of products ?

The responses received were as below :

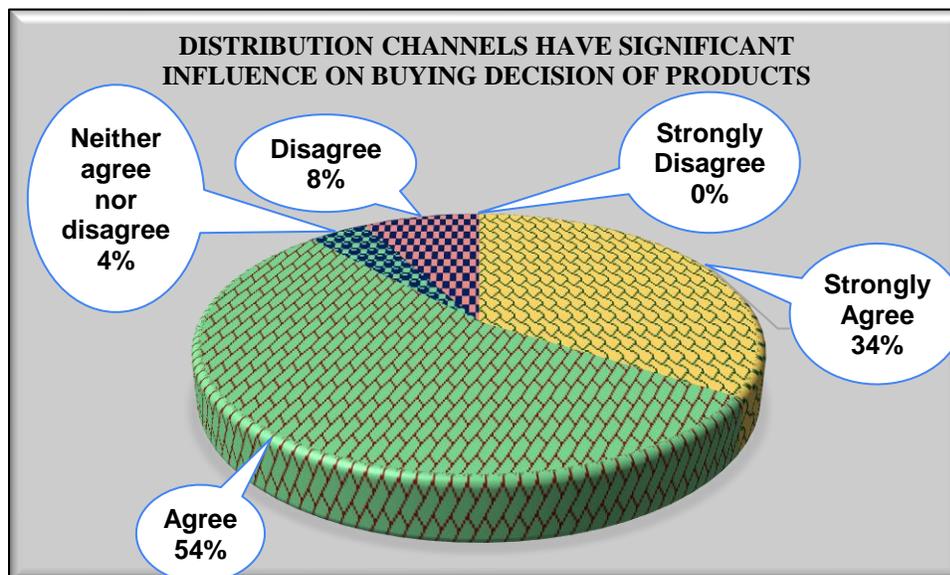
Table1: Frequency Distribution of respondents with responses to statement “Distribution channels have significant influence on buying decision of products”

The frequency distribution of respondents according to their responses along with its pie chart is as given below.

Table 1

Distribution channels have significant influence on buying decision of products	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree	Total
Frequency	17	27	2	4	0	50
%	34.0	54.0	4.0	8.0	0.0	100.0

(Frequency Distribution)



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Summary: 34% respondents strongly agree to the statement; 54% agree to the statement; 4% neither agree nor disagree; 8% disagree & 0% strongly disagree.

The agreement to the statement is (34% + 54%) 88% & disagreement to the statement is (8+ 0) 8%.

Hypothesis

The Null hypothesis, H0: Distribution channels do not have significant influence on buying decision of products.

Vs.

The Alternative hypothesis, Ha: Distribution channels have significant influence on buying decision of products.

The parameter of interest in the hypothesis is proportion of respondents with agreement to the statement “Distribution channels have significant influence on buying decision of products” in the sample & using sample proportion it would be decided whether the proportion is adequate or not that is whether it is significantly greater than 50% or not. Hence significant result would imply that the population proportion under consideration is adequate that is greater than 50%. Since the parameter of interest is proportion; to test the hypothesis, the test used is z test for proportions. Here hypothetical value of proportion is taken as 50% & sample size, n =50.

Test statistics:

$$Z = \frac{\hat{p} - P_0}{\sqrt{\frac{P_0(1 - P_0)}{n}}}$$

Where \hat{p} = sample proportion, P_0 = hypothetical value decided by researcher (here it is 50% that is 0.50), n = sample size = 50

Calculation Table:

Question	Frequency (Agree + Strongly Agree)	Proportion	Z Statistics	P value	Significance
Distribution channels have significant influence on buying decision of products.	44	0.88	5.37	0.0000	Significant

Conclusion

Since p value is less than 0.05, the level of significance; the result is significant.

Hence community is accepting that “Distribution channels have significant influence on buying decision of products”. Hence the hypothesis is accepted.

Hence Distribution channels have significant influence on buying decision of products.

Discussions

It was noticed from the survey that the majority of the customers either strongly agreed or agreed to the fact that the distribution channels have significant influence in buying decision of products. From the literature review as well as the sample survey, it is clear that the distribution channels, irrespective of the number of levels involved in them help customers in their decision making. The sample customers belonged to the different manufacturing activities and located in different geographical locations. In spite of these differences, their response was positive. This is because of the close interaction and quick service provided by the channel partners.

Managerial Implications

Top management needs to put in efforts to judiciously select the channel partners, based on the geographic locations, the concentration of a particular type of customers in those areas, and their buying patterns. Properly appointed distributors provide extensive help to the regional sales persons in achieving their targets. The appropriate discount structure and logistics support needs to be provided to the distribution channels for their effective utilisation and thus getting maximum market share. Depending upon the strength of their financial and stocking capacity, and technical competence of the staff, the management can decide to offer exclusive distributorship for the full range of products, to the capable channel partners.

Conclusions

Distribution channels are desired in the marketing of industrial products. The industrial customers are situated at different geographical locations and the manufacturing locations are limited. Hence to cater to the needs of customers in the desired time, quantity, and specific locations, the manufacturers can not depend solely on their logistics support and the sales personnel. With the limited resources, they are likely to lose business opportunities. The customers can not wait and desire to have the products delivered just in time to achieve their manufacturing targets.

Some customers would like to cut short on the channels and get the products directly from the manufacturers to save cost. This is because they felt that the channel partners add to the price to take care of their efforts, which would result in paying higher price. The bigger the geographical area to be covered, the more channel partners are involved to reach the customer. Based on the nature of the product and the market, the manufacturers need to adopt differentiation in channel design, thus making it effective in serving the customers.

Local channel partners understand the policies of the government. They are aware of the buying systems of the customers coupled with social and economic background which affects the decision of purchase. Being local, they can easily communicate in the regional languages, which can help them understand the problems of local customers and solve them effectively. The Two-way exchange of information between manufacturers and customers is possible through local channel partners. This helps the manufacturers to improve their product quality and also the customers to get suitable products for their applications. Since there is a competition, the local channel partners

help provide feedback to the manufacturer so that improvement in quality and service can be achieved.

The transfer of knowledge is essential to the channel partners. This makes them efficient in imparting product knowledge and updates to the customers. However, each of these partners has his own interest while participating in the channel network. This may create misunderstanding and a communication gap, which can affect the customer relationship and in turn affect the performance of the original manufacturer. To make the channel network work trouble-free, the manufacturers need to resolve issues amongst the channel partners so that it does not affect service to the customers.

Due to the surge in the e-commerce business, the distributors stand to gain in case they have a digital presence in the form of the website. To achieve desired market share, the manufacturing companies need to train the channel partners so that they become conversant with the new products and technologies which in turn can be shared with the ultimate customers. The manufacturing companies can offer incentives such as free samples for display, promotional materials, local advertisement, and turnover discounts so that they are keen to help the principal companies get maximum business.

Multinational companies need to have a better set up of channel networks due to the business in diverse geographical territories. They have to strategically appoint the channel partners who are conversant with the policies, economic conditions, and nature of buyers in respective countries. A high standard of quality of products and efficient logistics support is essential for them to get business internationally.

Due to local support and assurance, the ultimate industrial customers are happy to deal with the distributors and their presence certainly influences buying decisions. Similarly, the manufacturers also are happy to carry on business through channel partners, since it saves time and efforts of their sales personnel and effectively works out to be economical in the long run.

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