Edmond Katakanya
0782406318
Department of Marketing & Media Studies

Physical Distribution and Logistics Management

Learning outcomes:

- Develop an overview of a logistics system
- Be familiar with the definition of logistics and physical distribution
- Appreciate the role of logistics management in channel management
- Explain the basic components of an effective logistics system

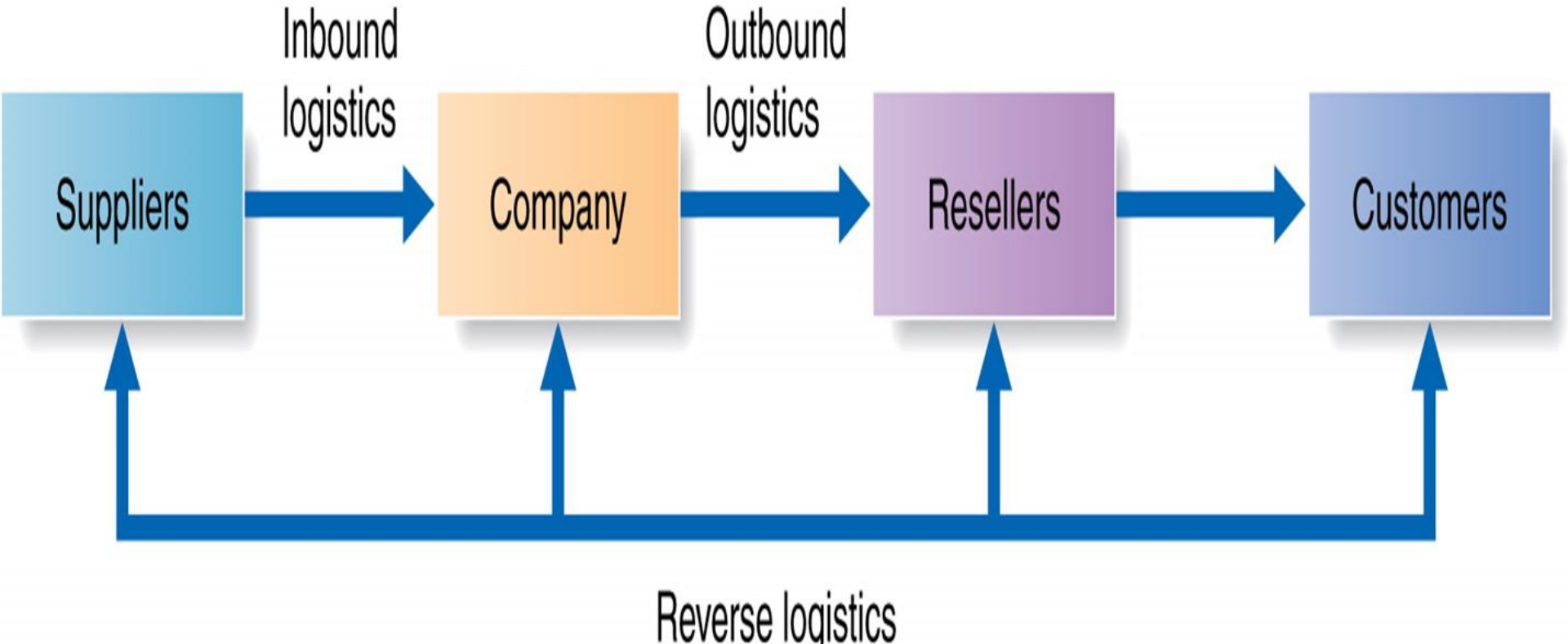
Nature and Importance of Marketing Logistics

Companies today place greater emphasis on logistics because:

- Effective logistics is becoming a key to winning and keeping customers.
- Companies can gain powerful competitive advantage by using improved logistics to give customers better service or lower prices
- Improved logistics can yield tremendous cost savings to both a company and its customers.
- The explosion in product variety has created a need for improved logistics management.
- Information technology has created opportunities for major gains in distribution efficiency.

Logistics management

Logistics management describes the entire process of managing the movement of materials, final goods and related information among suppliers, the company, resellers, and the final consumers.

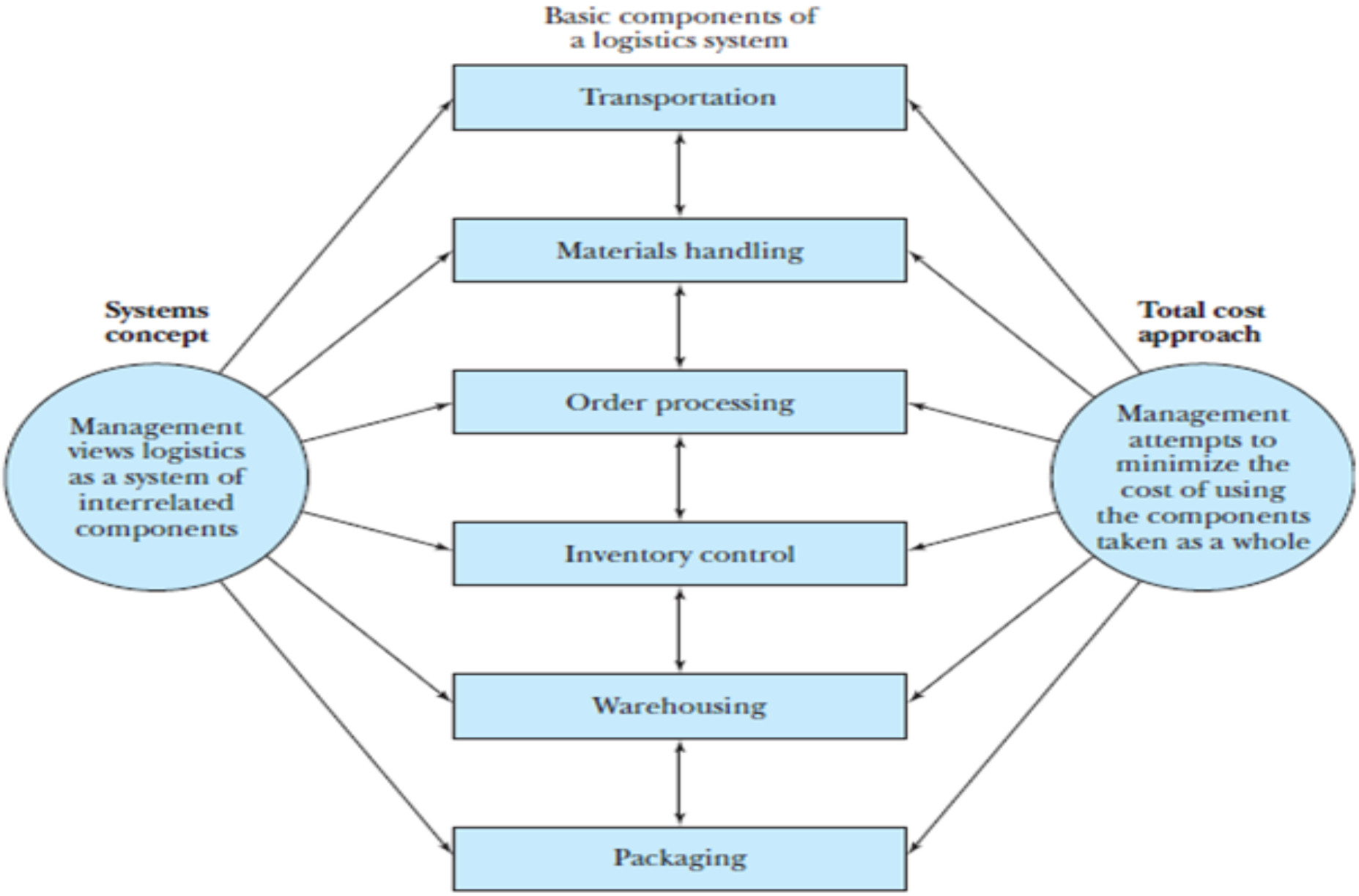


Physical distribution may be therefore be seen as "outbound logistics", while "inbound logistics" covers the movement of materials from suppliers and is closely linked to the manufacturer's purchasing or procurement function. "Reverse logistics" involves reusing, recycling, refurbishing, or disposing of broken, unwanted, or excess products returned by consmers or resellers.

Physical distribution

Physical distribution involves planning, implementing, and controlling the physical flow of goods, services and related information from points of origin to points of consumption to meet customers requirements at a profit. It involves getting the right product to the right customer in the right place at the right time.

Logistical Functions



Warehousing

Production and consumption cycles rarely match, so most companies must store their goods while they wait to be sold.

A company must decide on:

- The location of warehouse facilities
- The number of warehousing units
- The size of units
- The design of units, including layout and internal systems
- The questions of ownership.

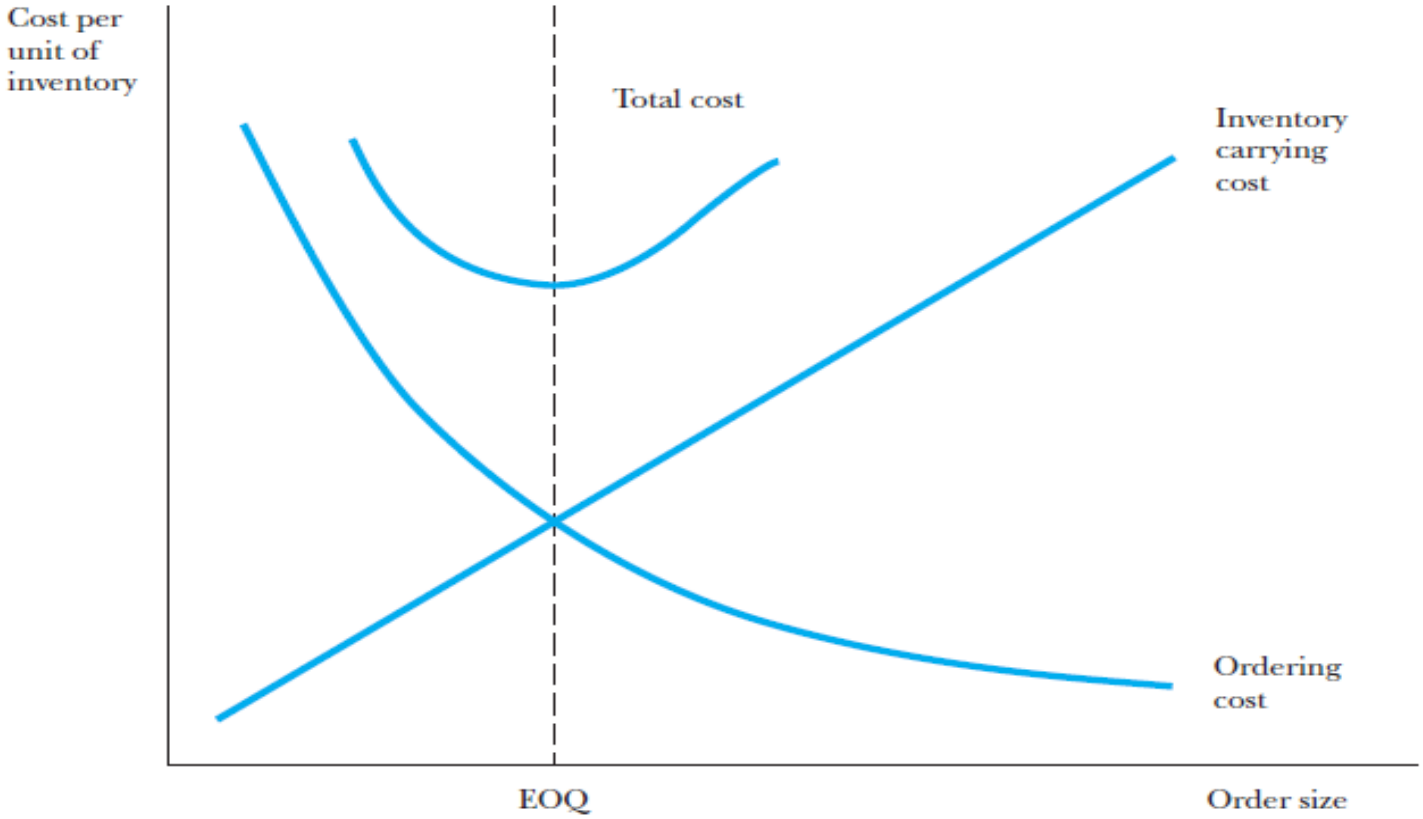
Inventory management

Management must maintain the delicate balance between carrying too little inventory and carrying too much.

With too little stock, the firm risks not having products when customers want to buy. Carrying too much inventory results in higher than necessary inventory carrying costs.

To manage inventory companies have adopted the just in time logistics systems where firms carry only small inventories while depending on new stock arriving exactly when needed.

Firms also determine their economic order quantities EOQ(the point where total costs i.e. inventory carrying costs plus ordering costs are lowest.



Transportation

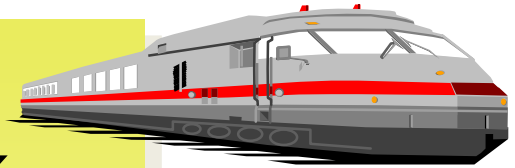
Transportation is the most fundamental and obviously necessary component of any logistics system, for clearly, in the case of physical products that must be moved from one location to another, a transaction cannot be completed until transportation has occurred.

Transportation also accounts for highest percentage of total cost for logistics therefore managing these costs is an important part of logistics management.

Transportation Modes

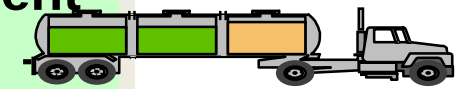
Rail

Nation's largest carrier, cost-effective for shipping bulk products, piggyback



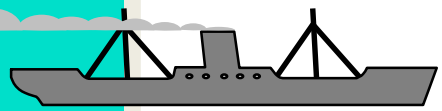
Truck

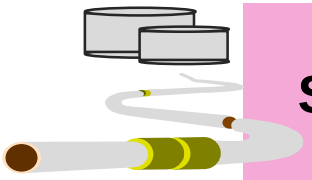
Flexible in routing & time schedules, efficient for short-hauls of high value goods



Water

Low cost for shipping bulky, low-value goods, slowest form





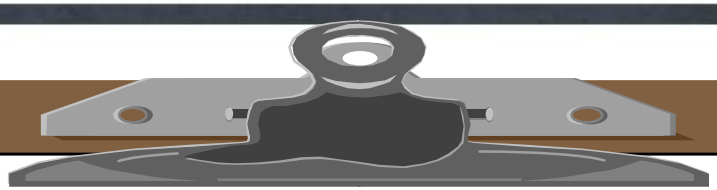
Pipeline

Ship petroleum, natural gas, and chemicals from sources to markets

Air

High cost, ideal when speed is needed or to ship high-value, low-bulk items

Choosing Transportation Modes



Checklist for Choosing Transportation Modes

- ✓ ***1. Speed.***
- ✓ ***2. Dependability.***
- ✓ ***3. Capability.***
- ✓ ***4. Availability.***
- ✓ ***5. Cost.***

Materials handling

Materials handling encompasses the range of activities and equipment involved in the placement and movement of products in storage areas in the producer's factory, warehouses and transportation depots.

In warehouses, this typically involves machinery such as automatic picking equipment, mobile platforms, cranes, and conveyor belts. Product packaging can also play a part in facilitating materials handling. Packaging must be capable of withstanding regular loading and unloading, as well as stacking in manufacturers' and intermediaries' warehouses.

Packaging

Packaging and the costs associated with the packaging of products are relevant as a component of the logistics system because packaging can affect the other components of the system, and vice versa.

The transport mode used can affect packaging and packing costs. e.g. in the case of airfreight, for instance, packaging costs are usually reduced because risks of damage are generally lower than if rail or truck were used.

Materials handling and order processing procedures and costs can also be affected by packaging because well-designed packaging can help to increase efficiencies in these components of the logistics system.

Effective packaging can also help control inventory carrying

costs by reducing product damage. Further, warehouse space and thus costs can be saved if packaging is designed to be space efficient.

Logistics information management

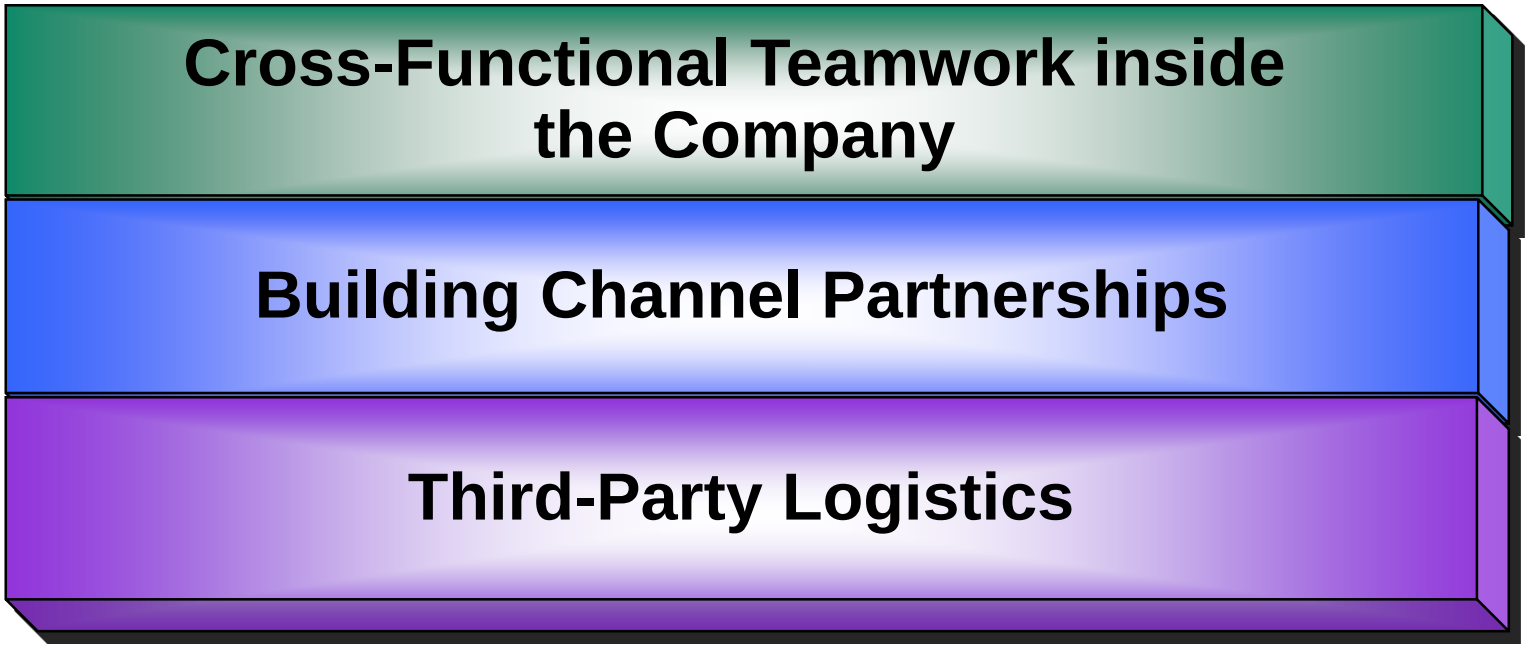
Companies manage their supply chains through information. Information such as customer transactions, billing, shipment, inventory levels and even customer data a valuable for channel partners.

Companies need simple, accessible, fast and accurate processes for capturing and sharing channel information.

Companies may exchange information through electronic data interchange(EDI)

Integrated Logistics Management

It is the logistics concept that emphasizes teamwork both inside the company and among all the marketing channel organisations to maximize the performance of the entire distribution system



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