

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 General Background**

The dairy industry has come through a long way since its establishment. The first initiative for dairy development was from the government sector. Dairy Development Corporation was established under the corporation Act in 1962 AD (2026 B.S). The dairy industry has a good prospect; it supplies milk and milk product to the market. Milk product is a part of agro product. It is essential and nourishing for mankind. It helps in the economic development of the country. Now a days, people are migrating towards the city area and it has been increased the consumption of milk and its product. To fulfill the demand of milk, lots of private dairy operate in the market. Around 40% people are illiterate and approximately 38% of Nepalese live in absolute poverty. The county is facing the problem of nutritional deficiencies and higher infant mortality. About 70% of the children are the victims of malnutrition (Khanal, et. al., 2004). The main causes of malnutrition are poverty, lack of education, lack of people consciousness on health and many others. Malnutrition can be controlled from the nutritious food. Milk and milk products are the main sources of energy, which provides enough amounts of proteins, vitamins. So, milk and milk products are taken as productive food item. It is considered to be an indispensable consuming item in our regular diet. There are altogether 13 dairy operating in the market of Pokhara.

Nepal is a developing country with agriculture based economy and very low standard of living. Nearly 76% of the total population depends

upon agriculture (Khanal, et. al., 2004). World Development report 2006 shows that, the per capita-income is \$310, which is very low as per the international standard. The economic development of the country, which is reflected by annual GDP, is not also very significant. Nepal's average GDP growth rate in recent year is around 5%. The population growth rate is 2.3%. Approximately 39% of GDP is obtaining from agriculture whereas livestock alone contributes by 26% in the over all growth of agriculture, dairy sector plays a very important role in the sense that milk alone contributes more than 60% of the total livestock sector. The average growth of milk production over the last decade was about 2.6 percent per year (Pradhan, et. al., 2003). In 1995-96, Nepal introduced agriculture led economic growth and rural poverty alleviation by implementing the twenty year agriculture perspective plan which envisages reaching an annual growth rate of 5.5%.

In the past, most peasants used to keep domestic animals like buffaloes, cows etc. To get milk for themselves. Gradually, their need began to increase day by day. When the number of cities grew, from rural areas, some people started to carry milk in cities for living. When the demand of milk in cities increased, then some people were keen on taking up it as professional work.

As the population increases, the demand of several others consumable goods also increases. So, the demand of milk products in this municipality is on the rise. Milk and milk products are used in commercial and household purposes. On the one hand, the milk and milk products production business is being popular day by day but on the other hand, the people are not attracted towards milk production business due to the lack of proper market, perishable nature of produced goods, higher fluctuation in price, lack of

cheap agricultural labor. Similarly, the consumers are facing the problems of unavailability of quality milk and milk products in proper time and quantity.

With the increment of demand of milk and milk products, the establishment of dairy industries has also increased. The total milk industries and other details are mentioned below:

**Table: 1.1**

**Milk Industries Operating at Pokhara Sub Metropolis**

S.N	Dairy's Name	Address	Gov/Pvt.	Annual milk collection Qty( in metric tons).
1	Sujal Dairy	Pokhara -13	Pvt. ltd.	7000.00
2	Shree Krishna Dairy	Pokhara-13	Private	9,125
3	Panthi Dairy	Pokhara-4	Private	720.0
4	SanJiwani Dairy	Leknath-8	Private	580.0
5	Ramjanaki Dairy	Pokhara-8	Private	2765.0
6	Sapta Gandaki Dairy	Pokhara-17	Co-operative	428.43
7	Panji Dairy	Pokhara-13	Private	97.50
8	Public agriculture milk Dairy	Arba- 4	Co-operative	36.00
9	Nagdanda Dairy Development Project	Dhikur Pokhari- 8	Co-operative	360.00
10	Kamdheni Dairy	Pokhara-17	Private	360.00
11	Gaurishankar Dairy Development Project	Pumdi Bhumdi- 2	Co-operative	365.50
12	Bajgain dairy	Leknath- 3	Private	5273.48
13	Fishtail dairy		Private	-
				-

*Source: - Sujal Dairy Office, 2008*

The demand of any consumable goods depends upon the total population of a particular area. So, the ward wise population of Pokhara sub-metropolitan city is presented below:

**Table: 1.2**  
**Population of Pokhara Sub-Metropolis- 1998**

Ward No	Area (in hec.)	Population	No. of houses	In 7.41%, 65% and 6%	
				Year	Population
1	124	14,700	2,509	1998	1,57,055
2	82	5,210	1,184	1999	1,68,693
3	64	9,210	1,372	2000	1,81,193
4	56	6,120	1,068	2001	1,94,619
5	224	5,115	1,048	2002	2,09,041
6	685.5	8,425	1,833	2003	2,24,531
7	62.5	6,460	1,212	2004	2,41,168
8	173	14,845	2,960	2005	2,59,039
9	198	13,210	2,157	2006	2,78,234
10	244	11,390	2,214	2007	2,98,851
11	206	7,245	1,436	2008	3,20,995
12	172	7,280	1,467	2009	3,44,751
13	321	7,280	1,467	2010	3,70,330
14	600	2,790	306	2011	3,97,771
15	477	8,280	1,772	2012	4,27,246
16	438	12,040	2,060	2013	4,58,905
17	806	11,880	2,233	2014	4,86,439
18	632	5,645	511	2015	5,15,625
Total	5,565	157,055	28,667	2016	5,46,563

*Source: - Golden jubilee Souvenir- 2005, PCCI.*

The annual population growth rate is assumed to be 6.5% and 6% in the fiscal year 2004-2008 and 2009-2016 respectively (Baral, 2001).

Table 1.2 shows that the population of PSM was 1, 57,055 in 1998 and it is 3, 20, 995 in the year 2008. The population of 1998 is nearly doubled in 2008 of PSM. The population of PSM will be 3, 70,330 in 2010 and 5,46, 563 in the year 2016. The data reveals that Pokhara Sub-metropolitan city today is one of the fastest growing cities of Nepal with the annual population growth rate of around 7.41% which is higher than the national average i.e. 2.3 % (HMG/Nepal, Ministry of Local development, 2002). The data indicates that the dairy products market is enlarging day by day to fulfill the demand of increasing population.

The distribution is an operation or a series of operations which physically brings the goods produced by any particular producer into the hands of final consumers or users (Rustam, 1997). A Marketing channel is identified as involving a series of relationship among organizations and find users to whom marketing effort is directed. Channel of distribution refers the path through goods move from producers to consumers (Kenneth, 1985).

The dairy produce various types of dairy product. The different types of produce by dairy are milk, Ice-cream, Cheese, Ghee, Butters salted, Cream, Pizza, Paneer etc. The dairy distribute their products through their own sales personnel to wholesaler who in turn sell those products to retailers who then make the sale to final consumers. In their normal course of business, many dairy have only limited direct relation with the retailers of their products and no contact at all with the final consumers (Boyd, westfall and stasch, 1999).

## **1.2 An Introduction of Sujal Dairy Pvt. Ltd.**

Sujal Dairy is one of the dairy of twelve dairy in Pokhara. It is set up at Kundhar in Ward No. 13 Pokhara Sub-metropolitan City. Since this is the age of industrialization, every businessman does his own business activities. Therefore, Sujal Food (P) Ltd. was started to do their own business and earn name and reputation in this spirited business world. Safal Dairy is one of the divisions of the Sujal Food (P) Ltd. Studying its history, Safal Dairy was known as Pokhara Dugdha Bikash Aayojana and it was government Ltd. The dairy was established in 2034 B.S within premises of Pokhara industrial Estate, Pokhara. It was registered in 2034 B.S and company came on operation in 2037 B.S. It was established under the firm of Laxmi Group Pokhara. In 2061 Magh 1, the Pokhara Dugdha Bikas Aayojana was over

took by Sujal Food (P) Ltd. and was known as Safal Dairy. The dairy was collected 7000 metric tons milk in fiscal year 2063/64.

The dairy produces various types of dairy product. The main products are standard milk, whole milk, yoghurt ltr, yoghurt cup, ice-cream, pizza, cheese and paneer. The firm has its main objectives of providing the consumers with both quality and tasty dairy products, to earn profit and to provide service for the social benefits. All together 95 people are employed in this dairy division and 3, 20,995 consumers are benefited from it. Success of the organization depends upon the different factors, among them sales and distribution plays key role to achieve organizational goal. This study is mainly focused on sales and distribution of Sujal dairy.

The variety of products that Sujal Dairy has been producing, marketing, selling and distributing with their total market and retail price is mentioned below:

**Table: 1.3****Name of Major Products, Total Market and Retail Price of Sujal Dairy**

<b>S.N.</b>	<b>Name and Size</b>	<b>Total Market</b>	<b>Retail Price</b>
1	Standard milk 500ml	11,000	17
2	Whole milk 500 ml	4,000	19
3	Yoghurt 500ml	1,500	27
4	Youghrt cup 200ml	1,000	15
5	Ice-cream 4 ltr	400	700
6	Ice-cream 1/2 ltr	50	100
7	Ice-cream cup 100ml	1500	15
8	Salted butter 500gm	60	340
9	Salted butter 250 gm	120	180
10	Nauni ghee 1kg	200	310
11	Ghee 1 ltr. pouch	400	340
12	Ghee ½ ltr	350	190
13	Ghee 1 ltr. jar	200	360
14	Ghee ½ ltr. jar	150	190
15	Panner 1 kg	70	290
16	Panner 1/2kg	150	150
17	Panner 200 gm	35	70
18	Pizza cheese 500gm	10	245
19	Peda 225 gm	50	65

*Source: Sujal Dairy office, 2008*

The dairy collects per day 30,000 ltrs of milk from the various part of the districts. There are 24 chilling centre from which milk is collected. There are total 144 co-operative centres to collect the milk. Altogether more than 600 farmers are selling the milk to Sujal dairy. The price of milk is

changeable which is not constant. Total chilling centre of different places of Sujal dairy is presented below:

**Table: 1.4**  
**Districtwise Chilling Centre of Sujal Dairy**

<b>District</b>	<b>Places</b>	<b>No. of Chilling Centres</b>
Kaski	Talbesi, Rebhan, Bhalam	3
Tanahun	Dhorferdi, Rhiding, Damauli	3
Chitwan	Jamire, Torikhet, Ganganagar	3
Rupandahi	Sunuwal, Devdaha, Manigram, pharastikar	4
Kaplilbastu	Bangain, Dumraha, Chanuta	3
Palpa	Ramdi, Bartung	2
Gulmi	Tamghas	1
Syangja	Galyang, setidovan, Sepath	3
Total		22

*Source: Sujal Dairy office, 2008*

For the sake of sales and distribution the sujla dairy performs the following activities

- ❖ Sujal dairy has appointed 3 dealers namely;
  - i) Bibhu Traders, chilpledhunga
  - ii) Badgami Traders palikhechowk and
  - iii) New Bhagawati Traders, Darbar thok,

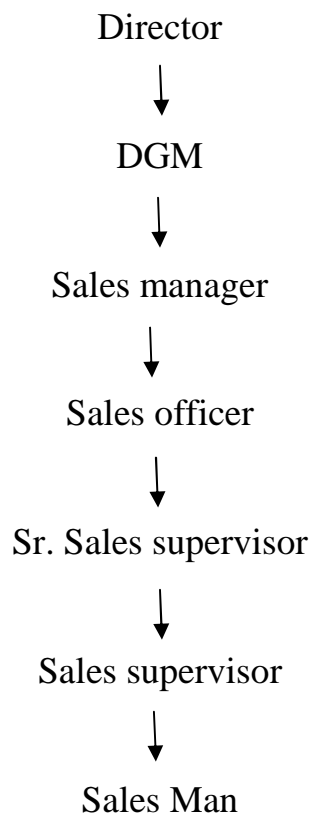
Apart from this there are 199 wholesalers and 819 retailers.

- ❖ Considering advertisement as a soul of sales and distribution, Sujal dairy uses the media like television, FM, Wall painting, posters, Banners and hoarding boards etc.



- ❖ To inspire channel members, Sujal dairy introduces different kinds of scheme programmes as price cash coupon, collection of empty packet, donated fund for social cause and extending personal selling.
- ❖ The organizational structure of marketing department of sujla dairy Pvt. Ltd. is given below:

**Figure: 1.1**



### **1.3 Statement of the Problem**

Dairy product is one of the popular food items among the fast food category. Its' use and popularity in Nepal is increasing day by day, not only in urban areas but also in semi-urban and in rural parts of the country. Over the years, increasing consumption of the dairy product with geographical

expansion of the market has been witnessed which has resulted in increasing competition. With this expansion of market in view, a number of new firms are entering into the industry with aggressive advertisement and attractive sales promotion schemes of their brand. At present, there are 13 dairy operating in the market in Pokhara. It is observed that Dairy are battling hard to out perform the competition and to secure the market position. In this situation, Sujal Dairy is providing its product but few percentage of people are benefiting from it. Mere production is not enough, its effective distribution is more important as well.

Distribution is an integral component of marketing, which has universal application regardless of nature of product. It has significant role in the marketing of agro-products such as Dairy product, as they are perishable in nature. Agro-Products have a very complex marketing network. There are different channels and intermediaries involved in the collection, assembling and distribution stages of dairy product. In general the study seeks to examine the distribution system of dairy product in Pokhara with a special reference of Sujal Dairy Products. Addressing this concern the study has tried to find out the answers of the following research questions:

- i) What is the demand and supply position of milk provided by Sujal Dairy in Pokhara?
- ii) What are the distribution channels used for dairy products distribution?
- iii) Does price vary significance between Sujal Dairy products and others\* products?
- iv) What are the problems faced by consumers, wholesalers and dealers in distribution of dairy products?

#### **1.4 Objectives of the Study**

The general objective of the study is the study of distribution channel of Sujal dairy products but its specific objectives in connection with the foregoing problems are as follows:

- 1) To assess the demand and supply position of milk provided by Sujal dairy in Pokhara.
- 2) To analyze the distribution channels used for dairy product marketing in Pokhara.
- 3) To compare the price of selected products between Sujal Dairy and other<sup>1</sup> dairy products.
- 4) To identify the problems faced by farmers, wholesalers and dealers in dairy products distributions.

#### **1.5 Significance of the Study**

With the changing business environment, and increasing competition in the market, the role of formulating marketing distribution strategies is becoming more important than ever before in any business. Marketers need to cover their marketing distribution system cautiously and carefully. As the study is focused on identifying distribution system of Sujal dairy.

The study is beneficial to Sujal dairy for solving the existing problems in product distribution. It is also be beneficial to the different channel members who are directly and indirectly related with dairy product and marketing such as farmers, wholesalers, retailers, dealers etc. This study also contributes to teachers, user groups, research scholars who are interested in conducting future research in the dairy. The study also provides reference to

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<sup>1</sup> *Ramjanaki and Panthi Dairy*

other dairy too as it has depicted as comparative situation of the dairy market of Pokhara.

## **1.6 Limitations of the Study**

The study has focused mainly the distribution system of Sujal Dairy Product in Pokhara and the research has been carried out for partial fulfillment of an academic requirement of Masters Degree (MBS). So, the study possesses some limitation of its own kind, which is given below:

- ) The Study concentrates only the distribution system of Sujal Dairy Products in Pokhara rather than considering other aspects of marketing.
- ) The study covers only Pokhara sub-metropolitan city. It would be better covering whole Pokhara Valley.
- ) Accuracy, reliability and validity of the study depends upon the information provided by the concerned authorities.
- ) Various difficulties arise in collecting data because the consumers (Wholesalers and Retailers of the dairy are not cooperative.
- ) In some cases consumers are used in the sense of farmers.
- ) Due to the time factor there may be deficiency in information.
- ) Being a student cost and resources are constraints.
- ) The study has not taken into account the distribution channel management policy and strategy of other similar dairy.
- ) Various difficulties arise in collecting data, due to the lack of total cooperativeness of consumers, wholesalers& dealers.

## **1.7 Organization of the Study**

This study has been organized under five chapters. The first chapter consists of background of the study, introduction of the Sujal dairy Pvt. Ltd.,

statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

The second chapter attempts to review theories and previous researches carried out in the study area. Research review further divides into Nepalese context and foreign context. Research review includes dissertation, reports, articles and journals.

The third chapter describes the methodology of the study that comprises the research design, nature and source of data, population, sampling plan and data collection procedures and data analysis.

The fourth chapter elaborates the data and analysis that includes data presentation, analysis, interpretation and major findings.

The fifth chapter is the final section that includes the summary, conclusions and recommendation of the study.

At the end, the bibliography and appendixes are presented.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

Review of literature is basically a stock-taking of available literature in the field of research. The textual constraints would help the researcher to support the area of research in order to explore the area of relevant and true facts for the reporting purpose. While conducting the research study, previous studies can not be ignored as that information would help to check the chance of duplication in the present study. The review of literature is broadly divided into two sections: Conceptual review and review of related past studies.

#### **2.1 Conceptual Review**

Traditionally, marketing means only buying and selling of goods and services. But in fact, marketing is planning and organizing according to the consumers' need with right delivery, right products, right pricing, right advertising, right promotion etc. Marketing is also a social activity which people obtain what they need. Assembling, advertising, transporting, grading, storing, packaging, processing, sampling, pricing, controlling and consumer's satisfaction are also important components of marketing activities.

According to modern marketing concept consumer is the king. The success of every business organization depends on their ability to satisfy the consumer. Marketing consist of all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants (Stanton and Futrell, 1987).

Staton et. al., (1987), also state that marketing is a total system business activities designed to plan, price, promote and distribute want-satisfying products, services and ideas to target markets in order to achieve organizational objectives. Marketing is concerned with these activities, which direct the flow of goods and services from producer to customer.

Marketing and marketing management plays an important role in our society an in business firm (Staton and Futrell, 1987). Marketing (the micro views) is concerned with those activities, which direct the flow of goods and services from producer to costumer. This occurs to satisfy the need of the consumer and accomplish company's (the macro view) objectives. The marketing concept says that a firm should focus all of its efforts on satisfying its customer at profit. Marketing management is an important functional area of business management. According to Kotler (2007), marketing is a societal process by which individual and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

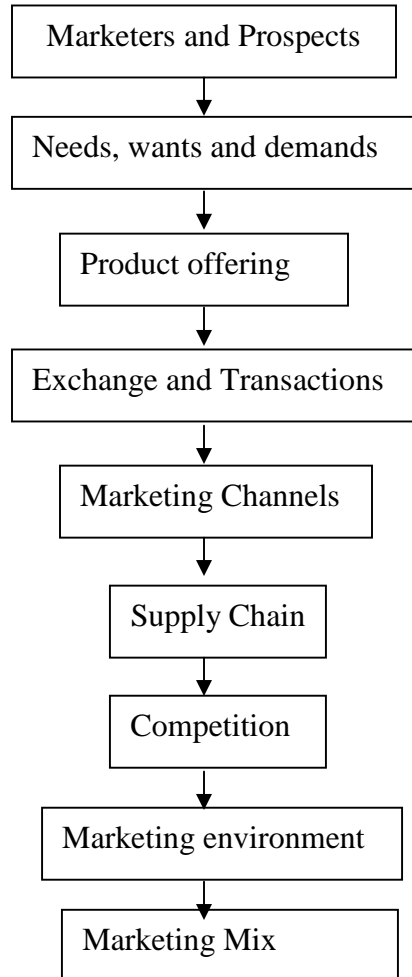
Marketing is a bridge between manufacturer and consumers to the flow of goods and services. According to American Marketing Association (1995), "Marketing is the process planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives."

Marketing is a network system of producer, distributors and consumers. Under network marketing, the company distributes its products through a network of dealers who sell their products from house to house, generally to people known to them. This personal knowledge is important to help, gain and entry. The selling is done inside the prospects house using a set of samples that each dealer is given for the purpose. The dealer can earn margins ranging from 20 to 30 percents of sales.

Marketing is a system of business activities. It is a social process that directs on economy's flow of goods and services from producers to consumers. Marketing as defined by the committee on definition of the A.M.A.(1977), "Marketing is the performance of business activities directed toward an incident to the flow of goods and services from producer to consumer or user." Thus, marketing designed to bring about exchanges with target consumer for the purpose of mutual gain.

**Figure 2.1**

**The core concept of marketing**



*Source: Philip Kotler, "Concept of Marketing Management" The Millennium Edition P. 9*



Marketing channels are the system of relationships among the various persons and institutions involved in the process of movement and ownership of products and facilitating exchanges. Therefore, distribution channel is considered as a system of relationship that exists among institutions in the process of buying and selling. Many manufacturers distribute their products through their own sales personal to wholesalers who in turn sell those products to retailers who then make the sale to final consumers. In their normal course of business, many produces have only limited direct contact with the retailers of their products and no contract at all with the final consumers of their products (Boyd, Westfall and Stasch, 1999).

## **2.2 Concept of Channels of Distribution**

Generally, Distribution is concerned with the activities involved in transferring goods from producer to customers and consumers. It makes goods available from one place to another. Stanton et. al. (1994), state that distribution is concerned with the various activities necessary to transfer goods from the producer to consumer or user. It includes not only physical activities, such as the movement and storage of goods, but also the legal promotion and financial activities involved in the transfer of ownership.

It is the delivery of products of the right time and right place. The distribution mix is the combination of decision relating to marketing channels, warehouses facility, and inventory management, location and transportation etc. After the products are produced, producers must distribute or supply these products to the target market; in most of the case producers follow several methods: Middlemen of channels of distribution and physical distribution through distributed goods and services to the consumption point.

Distribution is the means for getting the products to the target market. It involves marketing channels and physical distribution. Marketing channels make the product available to the customers. Physical distribution makes the product accessible to the channel members and customers (Agrawal, 2004).

After the products have been produced, producers must distribute or supply these products to the target market. The term distribution is concerned with all the business activities centering around the problem of getting merchandise from the producer to the final customer. The aim of distribution is to get the products in adequate quantities in accessible locations at the time when customers desire them (Koirala, 1995).

A marketing channel is identified as involving a series of relationships among organizations and final users to whom marketing effort is directed. Channel of distribution refer path through which goods moves from producers to consumers (Kenneth, 1985).

Distribution may be defined as an operation or a series of operations which physically brings the goods produced by any particular producer into the hands of the final consumers or users (Rustam, 1997).

The channel of distribution is a means of actual placing of appropriate quality in the right place at right time and minimum prices. Therefore the channels of distribution is viewed as sequence of firms involved in moving a product from producers to consumer (Lazar, et.al., 2000).

The term channel of distribution refers to the system of marketing institutions through which goods and services are transferred from the original producers to ultimate users or consumers. The channel refers to various institutions which perform activities that take products from producers to consumers (Agrawal, 1982).

A channel of distribution is a group of individuals and institutions that direct the flow of products from producers to customers. The fundamental task of marketing channel is to move goods and services in an efficient manner. The marketing channel involves several individuals and institutions such as suppliers (who supply raw materials, finance, manpower and machines to the manufacturers and industrial user), manufacturers and industrial users, agents and brokers, wholesalers, industrial distributors, retailers, consumers and industrial users( Koirala, 1995).

In today's economy most producers do not sell their goods directly to the final users. Between them and the final users stand a host of marketing intermediaries performing a variety of functions and bearing a variety of names. Some intermediaries – such as wholesalers and retailers – buy, take title to, and resell the merchandise, they are called merchant middlemen. Other – such as brokers, manufacturers' representative and sales agents search for customers and may negotiate on behalf of the producer but do not take title to the goods, they are called middlemen, still others such as transportation companies, independent warehouses, bank and advertising agencies- assist in the performance of distribution but neither take title to goods nor negotiate purchases or sales, they are called fact facilitators.

According to Kotler (2007), "Most producers work with marketing intermediaries to bring their products to market. The marketing intermediaries make up a marketing channel (also called trade channel or distribution channel)".

A marketing channel also includes various types of flows or movement within the channel. Some of these flows move in forward direction, some in backward direction and some other in both directions.

Forward flows include physical flow, title flow and promotional flow. A physical flow results from movement of raw materials suppliers and finished goods products. Most of the channel members participate in the physical flow. The title flow results out of the actual transfer of ownership from one channel member to another. The title flow in many instances may take a different route from the physical flow. The promotional flow is represented by the dissemination of persuasive communication, such as advertising and sales promotions between the channel members.

Backward flows include ordering flow and payment flow. Ordering flow is represented by the backward communication of buying intentions by the channel members. Payment flow is represented by a flow of money from sales from the channel members to the manufacturers.

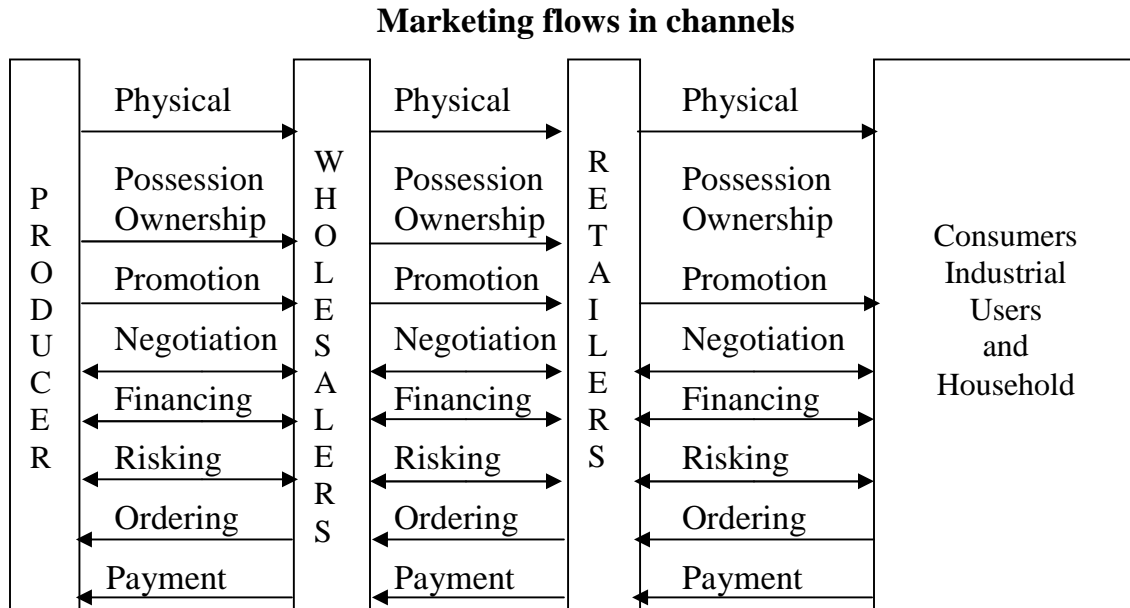
Two ways of flows include negotiation flow and information flow. In negotiation flow, the channel members negotiate and bargain over prices, delivery terms and delivery dates. Information flow is represented by the marketing information flowing backward from the market to the manufacturer through the channel members and the information about the product, its use and other instructions flowing forward from the manufacturer to the market through the channel members (Koirala, 1995).

In the field of marketing, channel of distribution indicate route or path ways through which goods and services flow or move from producer to customers, in this route various individuals and institutions are appointed to perform making task. These intermediaries or channels of distribution tend to be used for several reasons. These are:

- i) The number of sellers and buyers and the distance of product movement are relatively large;
- ii) The frequency of purchase is high;

- iii) The lot sizes needed by end users are small;
- iv) Markets are decentralized (Shrestha, 1992).

**Figure 2.2**



*Source: Lowis W. stern, and et.al, New Delhi, 1972, P.10*

Middlemen in distribution channel facilitate the process of exchange and create time, place and possession utilities through marketing and sorting process,

Sorting enables meeting or matching the supply with consumer demand (Sherlakar, 1986).

Distribution involves a physical movement of products to ultimate consumers. It has so many methods and ways to perform its function. It is also a critical task. It is not only simply a matter of moving products into the hands of consumers; it involves a products movement through out all stages – resource procurement to final sales. These functions may generally be performed more effectively by intermediaries. So, the manufacturer first and most basic distribution problem to decide, if he should use intermediaries or middleman or not. The outcome of this decision depends upon the firm's

marketing plans. According to plan upon the functions the system must perform and availability of appropriate middlemen also.

The marketing oriented firm designs its product to fit the needs of a particular group of potential customers. The distribution system must efficiently implement this marketing planning. The producer presents the product differently to different market segments. The different market segment programs are concerned with the availability of product to potential customers. The producer would like to establish a distribution system that will achieve the optimal marketing program in each market segment. So that he will generate the maximum profit. The system should include middlemen whenever they can increase the manufacturer's profitability by performing distribution functions at lower cost.

### **2.3 Objectives of Distribution**

The objectives of distribution are as follows (Agrawal, 2004)

**2.3.1 Flow of Goods:** Distribution aims at smooth flow of goods from manufacturer to channel members and customers. This is the essence of exchange relationships in marketing.

**2.3.2 Availability of Goods:** Distribution channels aim at making the goods available to customers. Channels such as wholesaler and retailers ensure availability of goods at all times. This also results in increased sales. Competition can be effectively faced.

**2.3.3 Accessibility of Goods:** Distribution aims at making goods accessible to customers through physical distribution. Goods are delivered at right place, in right time and in right quantity. Material handling, ware-housing, inventory and transportation are managed.

**2.3.4 Efficiency Distribution:** It aims to achieve marketing efficiency. It facilitates assortment of goods. It reduces number of transactions between manufacturer and customers. Marketing costs decreases by efficient management of logistics.

**2.3.5 Customer Satisfaction:** Effective distribution contributes to customer need satisfaction. It adds value to the product. It facilitates better services to customers.

## **2.4 Importance of Distribution**

The following points indicate the importance of distribution (Agrawal, 2004).

**2.4.1 Efficiency:** Manufacturers produce limited variety of products in large quantity. Customers desire large variety of products in limited quantity. Distribution facilitates assortment of products. Customers can get all the products they want to match their needs. This promotes marketing efficiency.

**2.4.2 Communication:** Distribution serves as a link between the manufacturer and the customer. Manufacturer can transfer messages to customers through channel members about product price and promotion. Channel members supply information to manufacturers about customers, competitors and environment changes. They also promote and push the product.

**2.4.3 Financing:** Middle men themselves finance their operations. They also store and finance inventories. Manufacturer don't need to establish their own distribution channels. Their inventory cost remains low. Products get converted into money. Their activities finance the manufacturer.

**2.4.4 Value Addition:** Distribution adds value to the products through delivery at right place, in right time and in right quantity. Value is essential to satisfy the manufacturer.

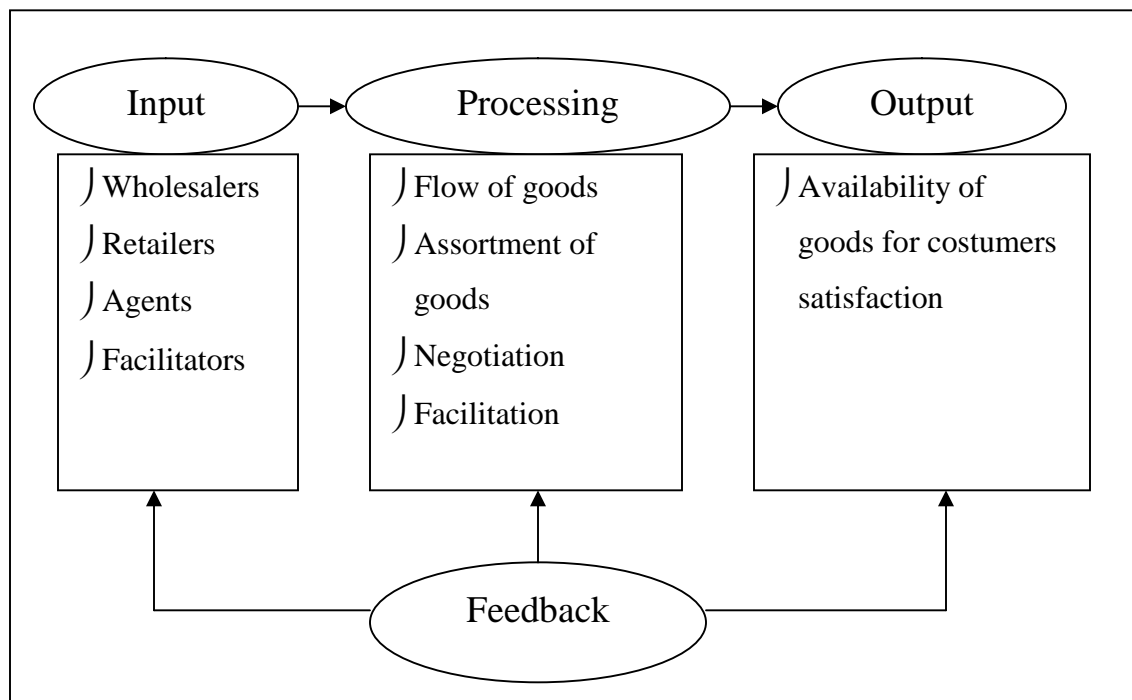
**2.4.5 Employment:** Distribution creates employment opportunities. Market intermediaries serve as an important source of direct and indirect employment, especially at the retail level.

**2.4.6 Competition:** Well established channels discourage new firms to enter in the market. This reduces completion.

## 2.5 Marketing Channel System

Actually, marketing channels are the distribution networks. Product flows to the market through the distribution network. So, marketing channel is a path traced in the direct or indirect transfer of ownership to a product or moves from a producer to ultimate consumer. A marketing channel system consists of input- processing-output-feedback components. It makes goods available for customer satisfaction.

**Figure: 2.3**  
**Marketing channel system**



*Source: Fundamentals of marketing (Agrawal, 2004)*



**2.5.1 Input to Channel System:** They consist of wholesalers and retailers who resell products. They also consist of agents who search customers. They also include facilitators like banks, insurance companies.

**2.5.2 Processing:** It consists of flow of goods from manufacturers to customers via channels. Channel members make assortment of goods, negotiate with customers and facilitate flow of goods.

**2.5.3 Outputs:** They consist of availability of goods for customer satisfaction. Right goods are made available at right time and right quantity.

**2.5.4 Feedback:** It provides information for making improvements in inputs and processing components of channel system.

## **2.6 Channel Structure for Consumer Products**

### **2.6.1 Channel Participants**

The major channel participants or components of the consumer marketing system are producers, agents, wholesalers and retailers. (Koirala, 1995).

**Producers:** The producers of consumer products are manufacturers, processors and assembles who gather factor of production to make products destined to be used by individuals and households. The size of producers widely differs between products and markets, ranging from cottage level producers to large multinational companies who often operate several manufacturing units across the world.

Many small producers perform all the distribution functions and directly deal with consumers, while some manufacturers also maintain their own distribution networks. However, a large number of manufacturers depend on marketing intermediaries to distribute their products. Producers perform major distribution functions, such as carrying of inventory, demand

or sales generation, physical distribution, after-sales services and credit extension to customers. The producer usually transfers a part of the distribution functions to other channel components, such as agents, wholesalers and retailers.

**Agents:** Agents generally work for the principal. They negotiate the sales or purchase transaction on behalf of the principal. In the consumer marketing channel system, the agents generally work for the producer. Agents normally work on a commission on sales basis. Agent do not take title to the goods they handle. However, they unite the producer with the buyers. Brokers and sales agents provide an important link between the producer and wholesalers. Brokers are limited authority on negotiating the deal, and mainly perform the function of identifying, locating and contracting buyers for the producer. The sales agents have full authority to negotiate the deal on behalf of the producer.

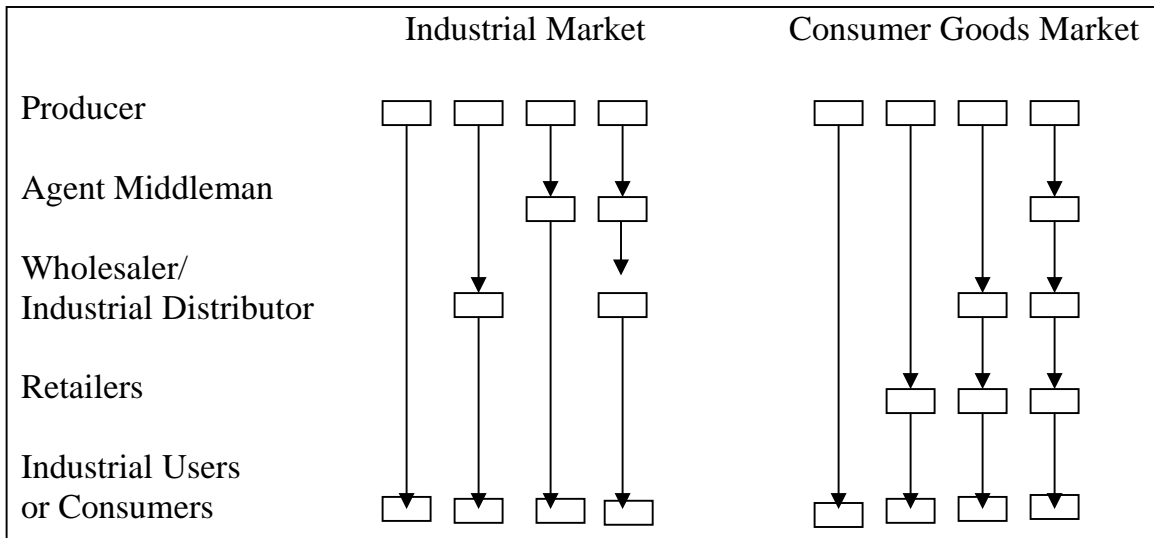
**Wholesalers:** Wholesalers are merchants who normally buy from several producers and sell to a large number of retailers and other institutional customers. They are often called dealers or distributors. There are different types of wholesale establishments who differ in terms of merchandise they handle, their methods of operation and breadth of services they provide to producers and retailers. However, they have one common feature: they take full title to the merchandise they handle. They also perform storing, promotion and credit extension functions in the channel system. In case of consumer products, wholesalers are an important link between the producer (or agent) and the retailer.

**Retailers:** Retailers buy merchandise from the producers and wholesalers and sell them to the customers. Retailers vary widely in terms of their size of operation. They range from street vendors to large retail establishments like

departmental stores and super markets. Retailers also take full title to the merchandise they handle. Retailers also perform storing, promotion and credit extension functions to a limited level.

**Figure 2.4**

**Marketing Channels Commonly used in Distribution of Industrial and Consumer Goods**



*Source: Marketing management (Kotler, The millennium ed).*

Figure illustrates several marketing channels of different lengths for consumer products and industrial products.

**2.6.2 Channel Designs for Consumer Products**

There are four design alternatives for the distribution of consumer goods, ranging from a zero level to level three. The producer and the final customer are part of every channel. We will use the number of intermediary levels to designate the length of a channel. Fig 2.4 has illustrated several consumer goods marketing channels of different lengths.

### **2.6.2.1 Producer-Consumer Channel (Zero-level)**

If Producers choose to perform all the distribution functions, they may distribute the products directly to consumers. Services are generally marketed through the zero-level channels. Producers of merchandise may distribute directly to consumers through multiple shops and chain stores. Producers may market their products directly under the mail-order arrangement. Some producers have started direct marketing through the internet services.

### **2.6.2.2 Producer- Retailer-Consumer Channel (level one)**

Some producers sell directly to retailers by passing the wholesales. Producer, normally try to avoid the marketing costs of selling merchandise in smaller lots. If a retailers orders in larger lots, the producer may be interested to sell directly. This way, producer can save a part of the usual discounts allowed to wholesalers. Producers generally follow one level channel to distribute products through large retail establishment such as department stores, super markets and discount houses. A producer may adopt selective distribution policy and distribute through selected retail outlets.

### **2.6.2.3 Producer-Wholesalers-Retailer-Consumer Channel (level two)**

In terms of channel use, the level two channels that has both the wholesaler and the retailer in the channel design, is the most extensively used. Most consumer goods are distributed intensively with the target of achieving widest possible market coverage. Merchandise can be distributed widely only when the producer uses wholesalers to reach large number of retail outlets in different market segments. In case of convenience products, the producer may hand over the product to a large wholesaler or dealer. The larger wholesaler or dealer may sell the merchandise to area wholesalers, the

area wholesalers to sub-wholesalers, and the sub-wholesalers finally sell the merchandise to the retail outlets.

#### **2.6.2.4 Producer- Agent-Wholesaler- Retailer Consumer Channel (level Three)**

This extremely long marketing channel is used only in special circumstances. Producers try to avoid this design due to its high selling costs. This channel is mostly used in international marketing, in which the producer faces distance, language and other cultural barriers to deal directly with local wholesalers. In such situation, the producer may use a local agent to contact wholesalers and execute the sales transaction.

### **2.7 Channel Design for Industrial Products**

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the major time, place and possession gaps that separate goods and services from those who would use them. Members of the marketing channel perform a number of key functions(Kotler, 1999).

Producer-industrial use channel (Level Zero)

Producer-industrial distributor-industrial user channel (level One)

Producer-agent-industrial user channel (level two)

Producer-agent-industrial distributor-industrial users channel  
(level three)

### **Research**

The gathering of information necessary for planning and facilitating exchange

**Promotion**

The development and dissemination of persuasive communications about the offers

**Contact**

The searching out and communicating with prospective buyers.

**Matching**

The shaping and fitting of the offer to the buyers requirements. This includes such activities as manufacturing, grading assembling and packaging.

**Negotiation**

The attempt to reach final agreement on price and other terms of the offer so that transfer of ownership or possession can be effected.

**Financing**

The acquisition and dispersal of funds to cover the costs of the channel works.

**Risk Taking**

The assumption of risks in connection with carrying out the channel work.

The first five functions help consummate transactions; the last three help fulfill the completed transaction.

In the consumer market, generally, there most are wholesalers and retailer. In the consumer market is commonly used the following channel structure:

**Manufacturer-Wholesaler-Retailer:** Channel, because most of the consumer products are broadly used or consumed by many different individuals / people.

**Manufacture:** Manufacture means organizer or producer who produces of goods or services. The organization that identifies a consumer's need and problems, a service on product from raw materials, parts or worker to satisfy that need.

**Wholesaler:** A wholesaler is a firm whose main functions are providing wholesaling activities. It includes all activities involved in selling goods and services to their buying for resale as business use. "Wholesaling is concerned with the activities of those person or establishment which sell to retailers and other merchants or industrial, intuitional and commercial users, but who do not sell in large amounts to final consumers (Mc carthy and perreault, 1987).

Wholesalers may perform certain function for both their supplier and the wholesaler's own customer. Thus, wholesalers purchase goods in large number of quantities from producers and resale them to retailers, industrial, institutional and commercial users in small lots.

**Retailer:** A retailer is a business enterprise that sells primarily to household consumers for non-business use. It includes all activities directly related to the sale of goods or services to the ultimate consumers for personal, non-business uses. Thus, retailing is selling products to ultimate consumers for their personal or household use. Retailing s all the activities involved in selling goods or services directly to final consumer for their personal, non- business use (Kotler and Armstrong, 1992).

Retailing covers all the activities involved in the sale of products to final consumers. Thus, the retailer buys a product from

wholesaler or producer and sale in small quantities to the ultimate consumers.

## **2.8 Marketing Intermediaries**

They are middlemen. They make the flow of goods smooth between manufacturers and customers. They can be

- i) Wholesalers: They deal with retailers.
- ii) Retailers: They deal with costumers.
- iii) Agents: They do not take title to goods.
- iv) Facilitators: They assist in distribution.

## **2.9 Selecting a Channel Strategy**

After selecting distribution channels, manufacturers should next decide upon the number of middlemen- the intensity of distribution- to be employed at the wholesale and retail levels (Staton and Futrell, 1988). Generally three courses of actions are available in this case namely

- a. Intensive distribution,
- b. Selective distribution,
- c. Exclusive distribution.

In intensive distribution strategy the seller will look for every outlet to sell the product. Ordinarily, the manufacturers of convenience goods use the strategy on intensive distribution.

In selective distribution, the marketer will have only a few outlets in a particular market. Selective distribution is used for consumer shopping and specially goods, industrial accessory equipments, for which most customers have a brand preference (Staton and Futrell, 1988).



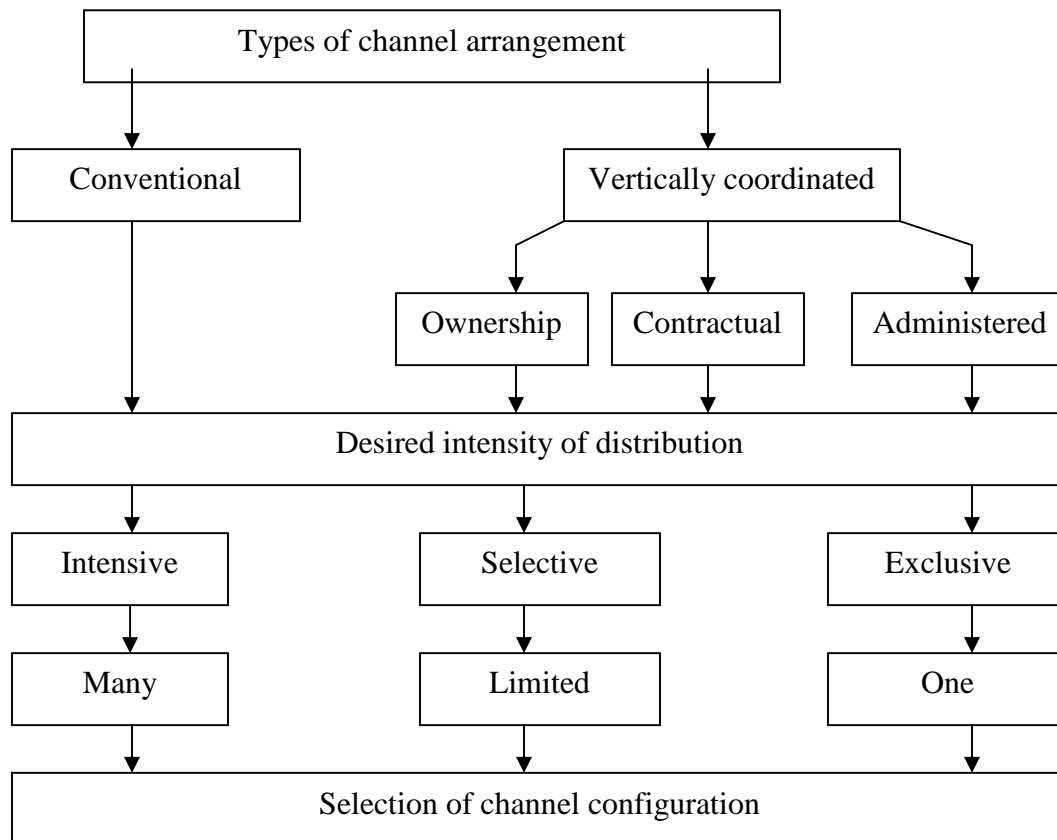
Under an exclusive distribution strategy the supplier agrees to sell only a particular wholesaler or retailer in a given market. Under an exclusive distributorship (With a wholesaler) or an exclusive dealership (With a retailer), the middlemen are sometimes prohibited from handling a directly competing product line. Exclusive dealerships are frequently used in the marketing of consumer specialty products such as expensive units, when it is essential that the retailer carry a large inventory, when the dealer or distributor must furnish installation and repair service.

Number of wholesaler or retailer used

- ) Intensive: Sell your product in every outlet, where final customer might reasonably look for it.
- ) Selective: Use a limited number of wholesalers and or retailers in a given geographical area.
- ) Exclusive: Use only one wholesaler a retailer in a given market.

**Figure: 2.5**

**Channel Strategy alternatives**

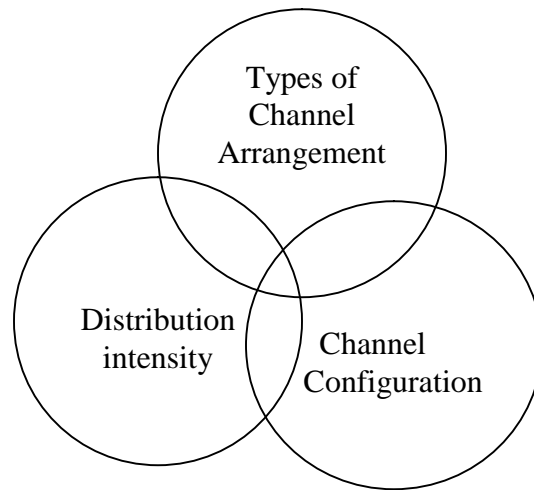


*Source: David W. Cravens, Strategic Marketing, Richard D. Irwin Inc., USA, 1982, p. 277*

**2.10 Channel Strategic Alternatives**

Three decisions establish key channel strategy guidelines for a company. As shown in figure no. 2.6. these include the type of channel arrangement to be used, the desired intensity of distribution and the selection of a channel configuration.

**Figure: 2.6**  
**Channel Distribution Strategy**



*Source: David W. Craves, Strategic Marketing, Richard D. Irwin Inc. USA, 1982, p. 270*

### **2.10.1 Types of Channel Arrangement**

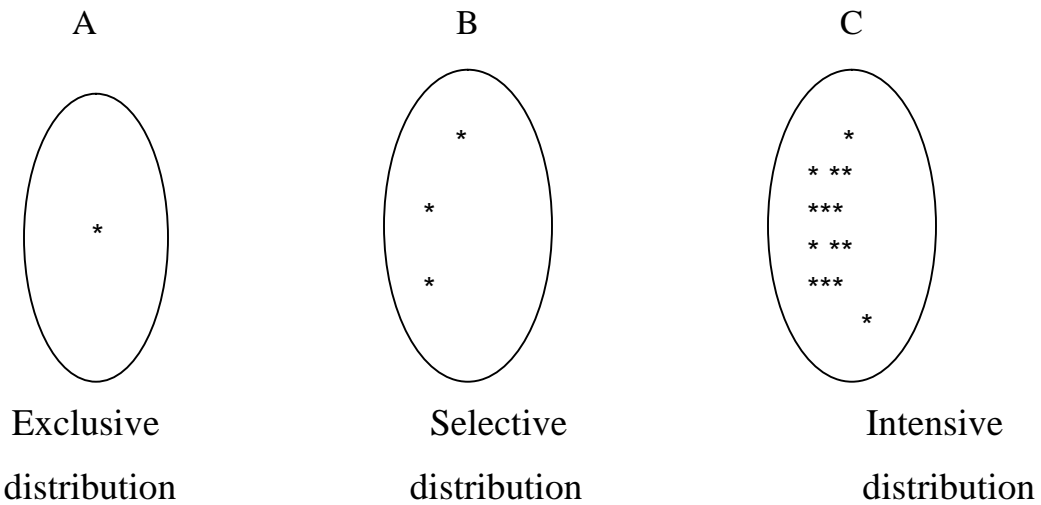
The conventional channel is a group of independent organizations, each trying to look out for itself, with little concern as to the total performance of the channel. Not surprisingly, managers in an increasing number of firms have seen the potential advantages to be realized in managing the channel as coordinated or programmed system of participating organizations. Vertical marketing system dominate the retailing sector today and are also significant factors in the industrial product sector. Perhaps the best way to identify a channel arrangement is by determining if it possesses the characteristics necessary to be a vertically coordinated channel. Otherwise, it is a conventional channel.

### **2.10.2 Distributional Intensity**

Distributional intensity can best be visualizes in reference to a geographical area such as a trading area. If we choose to distribute our

product in all or most of the retail outlets in a trading area that might normally carry such a product, we are using an intensive distribution approach. In contrast, if only one dealer in the trading area is selected to distribute the product, we are using an exclusive distribution strategy. Thus, there is a range of distribution intensities that can be selected.

**Figure: 2.7**  
**Distribution Intensity Illustrations**  
Trading area

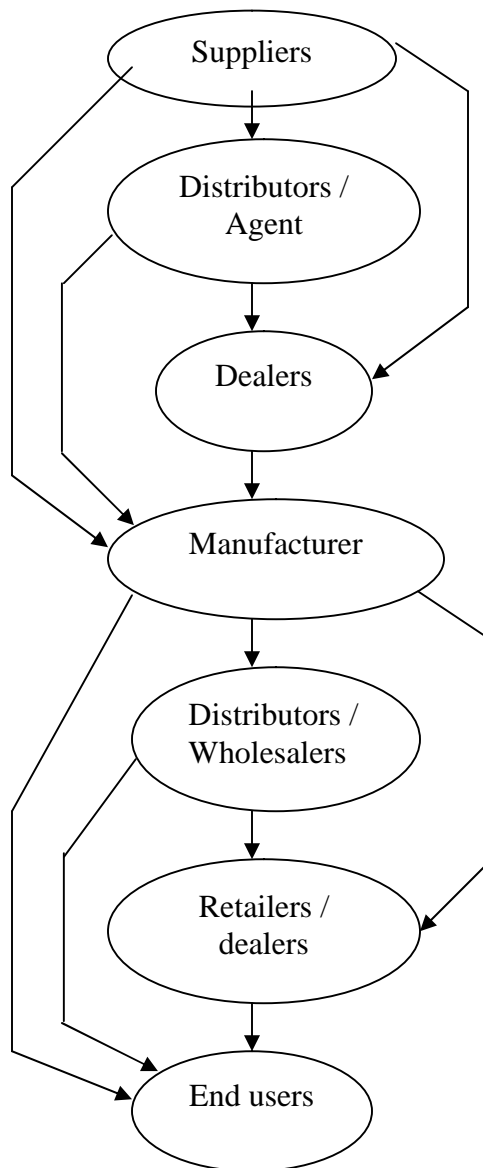


**2.10.3 Channel Configuration Decision**

The final link in selecting distribution strategy is deciding the number of levels in the channel and the intermediaries to be utilized.

**Figure: 2.8**

**Distribution network from a manufacturer's point of view**



*Source: David W. Craves, Strategic Marketing, Richard D. Irwin Inc. USA, 1982, p. 275*

Channel design is greatly influenced by customer characteristics. Customer characteristics include the number of potential buyers, the concentration of buyers, and advantage purchase size (Joel R. Evan and Barry Berman, 1992). Types of market (i.e. – consumer market and industrial market) also

considered in this context. A direct channel is a most feasible if the number of buyers are low, they are geographically concentrated and expenditure is large and vice versa.

Choices of channels depend not only on the company but also on consumers, product service characteristics, competition, available channels and the legal environment.

Products or services characteristics may invoke four attributes such as value of product, complexity, perish-ability, and bulk. Items that have high unit value (like- gold, jewelry and art ), complex items (like jet aircraft and automobile insurance) require shorter channel. Perishable items like milk and medical products need quick movement i.e. sorter channel. Similarly bulky merchandise, such as pianos and refrigerators require short channels and vice versa (Shrestha, 1992).

## **2.11 Factors Effecting to Selecting the Distribution Channels**

### **2.11.1 Market Considerations:**

In market consideration factors we should analyze the following sub elements:

- i) Number of customers
- ii) Customer's buying habits.
- iii) Size of purchase.
- iv) Channel used by competitor and
- v) Nature of the market. etc.

### **2.11.2 Product Considerations:**

In product consideration, we have to analyze these following factors:

- i) Unit sale value of the product,
- ii) Size ad weight of the product,

- iii) Perishable goods,
- iv) Technical goods,
- v) Standardized of product,
- vi) Rules of the government etc.

### **2.11.3 Organization Considerations:**

In the organizational factors it has to study of the following elements:

- i) Financial position of the organization.
- ii) Managerial skill of organization.
- iii) Control over the channel of the organization. etc

### **2.11.4 Middlemen Considerations:**

In the middlemen consideration we have to analyze the following elements:

- i) Availability of middlemen.
- ii) Sales potential of the middlemen
- iii) Company costs etc.

In this way, after deeply study these factors only it can be selected the suitable channel. It should be cheap, adoptable and available also. To get maximum sales and profit HEPL has to necessary to develop of the suitable channel of distribution system.

## **2.12 Channel Dynamics**

Marketing is a dynamic process. It changes with the changes in the environmental forces. Marketing channels are also dynamic. They do not remain confirmed to conventional structure. New channels evolve and emerge.

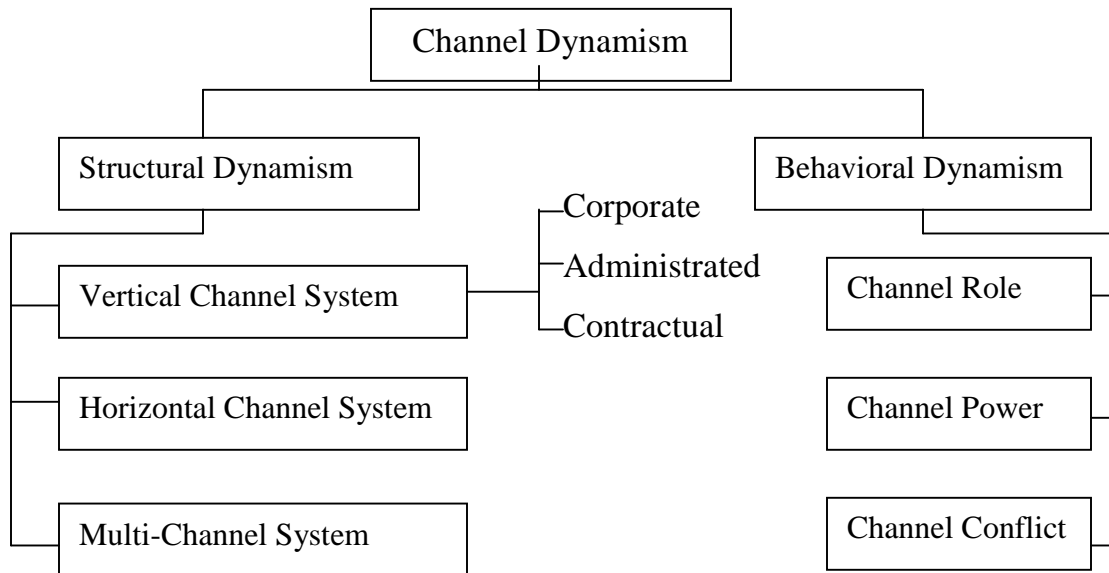
Channel dynamics are of two types (Agrawal, 2004).

- i) **Structural dynamics:** Emergence of new channel structure.

- ii) **Behavioral dynamics:** Behavioral changes of channel participants.

**Figure: 2.9**

**Channel Dynamics**



*Source: Dr. Govinda Ram Agrawal, Fundamentals of marketing. M.K. Publishers and Distributors, Kathmandu, 2004. p. 266*

**i) Structural Dynamics**

The conventional marketing channel comprises of autonomous manufacturers, wholesalers, and retailers. No channel member controls the other members.

Structural dynamics are concerned with the emergence of new distribution systems. They are:

- ) Vertical channel system
- ) Horizontal channel system
- ) Multi-channel system



## **ii) Behavioral Dynamisms**

It is concerned with changes in role and power relationships of channel participants. It leads to cooperation or conflict. Cooperation leads to adaptation to a changing environment. Conflict can be dysfunctional. The variables that affect behavioral dynamics are: role, power and conflict.

### **2.13 Channel System Conflict**

No matter how well channels are designed by the marketer, there may exist some conflicts among the channels. There are several reasons for channel conflicts some of the major reasons are as follows (Shrestha, 1992).

- i) Differences in goals of channel members such as profit margin goodwill;
- ii) Poor communication between the channel members;
- iii) Difference in channel pricing policy of the channel members;
- iv) Unclear roles and rights of channel members;
- v) Differences in purchase terms and conditions;
- vi) Lack of knowledge regarding the level of channel control.

Channel system conflicts may be of three types.

The manufacturer hopes for channel cooperation that will produce greater profits for each channel member. Yet vertical, horizontal and multi channel conflict can occur (Kotler, 1979).

- i) Vertical Channel conflict occurs between channel members at different levels such as, conflict between retailers, conflict between manufacturers and wholesalers, between wholesaler and retailers, between retailers and manufactures, who handle similar products.
- ii) Horizontal Channel conflict occurs between intermediaries at the same level such as conflict between two or more retailers, conflict

between two or more wholesalers who handle the same type products or similar products.

iii) Multi Channel Conflict exists when the manufacturer has established two or more channel that sell to the same market. Multi Channel conflict is likely to be especially intense when the members of one channel get a lower price (based on larger volume purchases) or work with lower margin.

When a conflict situation arises with in a system, some channel members must take a leadership role to resolve the conflict. Although channel conflicts can be resolved through various means, and atmosphere of cooperation is highly necessary for solving difference of opinions and perceptions of channel members. Conflict resolution is possible through one of the following methods (Kotler, 1979).

- i) **Problem Solving:** Problem solving involves multi consultations among channel members to sort out the differences.
- ii) **Persuasion:** Under persuasion method, a powerful channel leader persuades the dissident channel members to work for the benefits of the channel system as a whole.
- iii) **Bargaining:** Under bargaining method, the members in conflict negotiate with each other to arrive at a new agreement.
- iv) **Politics:** Several channel members from an association with view to change the current channel power structure.

All channel members have the same general objectives; profitability, according to products and services, efficient distribution, and customer loyalty. The quest of every firm is maximize its own profit and control its starters cooperation and minimize conflicts.

## 2.14 Physical Distribution

Customers require products in the right quantity at the right form the right place. Physical distribution is the process of getting products to target customers. It is actual flow of product from the point of origin to point of consumptions.

Stanton defines physical distribution as 'the activities concerned with the movement of the right amount of the right product to the right place at the right time. Physical distribution management is the process of strategically managing, the movement and storage of material, parts and finished inventory from suppliers, between enterprise facilities and to customers.

According to Philip Kotler, "Physical distribution involves planning, implementing, and controlling the physical flows of materials and final goods from points of origin to points of use to meet customer requirement at a profit,"

In the marketing channels the products must be moved in the right quantity at the right time to the right place in order to deliver desired satisfactions to the end users or customers. Physical distribution or marketing organizations must manage the flow of goods and services from their production locations to the marker, and also make arrangement for a flow of information between the two points.

The main objective of physical distribution is getting the right product, safely to the right places at the right time at the least possible cost. Most specially, the objectives of physical distribution are:

- i) To provide customer service,
- ii) To distribute goods more sagely,
- iii) To minimize the total cost; and

- iv) To supply goods to the right largest market (Shrestha, 1992).

Physical distribution functions have been performed by all productive enterprises through the ages. However, this function was treated as of secondary importance to production and selling. The various physical distribution functions, such as transportation, warehousing and inventory management were performed in fragmentary and most secondary basis. In the Second World War, the military logistics played important part in the victory of allied forces. Encouraged by this example, business organizations also realized the importance of logistics and embraced physical distribution as a competitive tool in marketing. The technological revolution in the field of transportation and information technology has also contributed for the rapid growth of physical distribution management systems.

Physical distribution is treated as a system with several subsystems or components, such as transportation, warehousing, inventory control, packaging, material handling, order processing and distribution communications.

Efficient physical distribution can lead to:

- i) Cost saving: Heavy costs of distribution can be reduced
- ii) Consumer satisfaction: This can be improved
- iii) Competitive Effectiveness: This can be faced (Koirala, 1995).

#### **2.14.1 Components of Physical Distribution**

A physical distribution system consists of a set of interrelated functions with special boundaries. The interrelated functions or components include the following elements:

- i) Transportation
- ii) Order processing
- iii) Material Handling

iv) Warehousing and

v) Inventory Management and control

**Transportation:** Transportation is the major tools for creating place utility on products. It is the major tool for moving products from the point of origin to point of consumption. From the logistic management view, an organization should establish a capability to move products from supply sources to consumers.

Transportation is the element of the physical distribution system that link geographically separated markets and facilities. Marketers need to take an interest in their company's transportation decisions. The choice of transportation carries will affect the pricing of the goods when they arrive, all of which will affect customer satisfaction (Koirala, 2007).

There are many transportation options available for movement in the logistical system. The five basic transportation modes are road, rail, water, air and pipeline. The distribution firm has to select from among these five modes of transportation. Each mode of transportation has its own characteristics- its own merits and demerits. The transportation need of each product also varies. In this situation, the firm has to tally its need of transportation with the relative characteristics of each mode of transportation.

Transportation moves products from manufacturer to customers. It accounts for almost 50% of total costs of physical distribution. It consists of decisions about the carrier type and the mode of transport (Agrawal, 2004). An organization may have three options for the development of the transportation capabilities. As a first option, it may maintain its own private fleet of vehicles to provide the movement of products. This option requires heavy investments in equipment and personal and is also perceived to be

difficult to manage. As a second option, the organization may use private transports in a job or long-term contract basis. These contract carries are specialists and provide efficient and professional transport services. As a third option, it may use common carries that offer point to point movement of products under specified charges.

**Order Processing:** Physical distribution starts with customer order. Order processing is a set of procedure for receiving, handling, and filling orders. It can be done manually or through computer. The activities are receiving orders, handling orders and filling orders.

Still another part of the physical distribution system is a set of procedures for handling and filling orders. This should include provision for billing, granting credit, preparing invoices and collecting past due account. Consumer ill will can result if a company make mistakes or is slow in filling orders. As information demands become more complex, companies are increasing turning to computers to implement their processing activities ( Hills and Wooddruff).

Order processing is the receipt and transmission of sales order information. Order processing is an important distribution function as its efficiency may result in better customer satisfaction, repeat orders and higher profit levels. Order processing can be manual as well as computer based. Small companies prefer manual processing, while large companies maintain a computer bases system. The computer based system is able to transportation aspects of the sales order into a single information flow system (Koirala, 1995).

**Material Handling:** Material Handling, also called physical handling of goods is an activity that is important in inventory, warehousing and transportation. The characteristics of a product determine to a large extent,

how it will be handled. For example, radioactive wastes, bulk chemicals and gasses require special handling and storage. Material handling involves selecting proper equipment to physically handle products. Efficient and appropriate equipment can reduce handling costs and minimize losses from breakage, spoilage, and theft.

The nature of the product, the size of the package, and the packaging materials determine handling equipment. Material handling can be mechanical and non-mechanical.

**Warehousing:** A warehouse is a storage facility to store products until they are sold. It performs various functions such as assembling, bulk breaking, storing, packing, and shipping.

Every company has to store its goods while they wait to be sold. A storage function is necessary because production and consumption cycle rarely match. Many agricultural commodities are produced seasonally, while demand is continuous. The storage function overcomes discrepancies in desired quantities and timing (Kotler, 1979).

Traditionally god owns performed the storage function. Today, the emphasis in warehousing is on product movement rather than product storage. Distribution Centers (Distribution Warehouse) have appeared which take orders, fill them, prepare them for shipping and quickly move them to customers. Important decisions regarding warehousing are private or public warehouses and Number and Location of Warehouse.

**Inventory Management and Control:** Inventory management is another important decision area in physical distribution. Inventory management is concerned with developing a system of maintaining an adequate level of product assortments to meet the customers' demand. Inventory planning is highly essential as shortages of products normally result in customer

disappointment, and hence a lower level of customer servicing. Overstocking of inventories normally result in higher costs in capital tie-up, increased cost of warehousing and insurance. Product decays and obsolescence costs.

Inventory Management involves:

- ) Control of inventory costs,
- ) Planning of inventory level

### **Control of Inventory Costs:**

Inventory costs consist of:

- i) Order processing costs
- ii) Carrying costs (Holding Costs)
- iii) Stock out costs

### **Control of Inventory Levels:**

Techniques of inventory controls consists of:

- i) Critical Inventory Levels
- ii) Economic Order Quantity (Optimum Order Quantity)

The Formula used for calculating Economic Order Quantity, (EOQ) is :

$$EOQ(\text{Units}) = \sqrt{\frac{2AO}{c}}$$

Where, A= Annual requirements

O= Ordering cost per order

C= Carrying cost per unit per year

- iii) ABC Analysis
- iv) Just-in-time(JIT)



## **2.15 Distribution practices in Nepal**

Distribution has a low profile in the marketing mix of Nepal Organizations. It has not received proper attention. Nepal being a landlocked country, considerable attention is paid to the development of transportation, industrial growth and trade. Due to the topographical diversity of the country and poor transport and communication facilities, marketing has remained fragmented.

The historical legacy, the social structure the social exclusion or inclusion of ethnic, linguistic and regional groups and the status of women have a close relation with development performance. Similarly the extent of resource endowment, the micro-economic fundamentals, the extent and character of the entrepreneurial class, the state of technology, the character of development intuitions and practices including the capacity of the civil service, the extent of infrastructure and the level of human resources development are also critical (Pande, 1999).

Marketing has been traditionally a neglected aspect in Nepal. Enterprises tend to concentrate on production and selling rather than marketing. The selling concept has been serving as main marketing philosophy of Nepalese Managers. The public sector has generally remained indifferent to the marketing concept (Agrawal, 2057).

Channel structure for consumer products in Nepal is largely traditional. Wholesaler and retailers are dominant market intermediaries in Nepal. About 89% of manufactures use two-level channel. Agents are generally emerging. Stockbrokers, which number about three dozen are active in the stock exchange. Big manufacturers have sales representatives. Due to globalization and liberal economic policies of the government, facilitators are growing. There are more than 20 commercial banks with 300

branches. The insurance companies have grown in number. So have their agents. Advertising agencies number more than 500.

Nepalese products are distributing and selling their products directly and through wholesaling. Most of the small scale producers in Nepal undertake the whole distribution job themselves. Such products, which are not durable such as milk, vegetable, fruits, eggs etc., are sold directly, the manufacturer who products directly to the final consumers. There are various types of indirect channels, which are followed by Nepalese producers.

Marketing is both simple and complex process. It depends upon the working area of the industry and target market. It is the combination of activities by which products and raw materials are made ready for consumption and reach the final consumer in a easy way at the time and in the place when it is demanded. So, marketing includes assembling, advertising, transporting, clearing, grading, storing, packaging, processing, sampling, pricing, and controlling and consumer satisfaction.

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## **2.16 Review of Research Work**

### **2.16.1 Nepalese Context**

Shrestha (1979) has carried out a study main agricultural marketing in Nepal. The main purpose of the study was to do the study about the different marketing aspects of agricultural products. The study reveals that the frames

spend considerable time in transporting their commodities to an assembly point in the other side, the local buyer is usually a passive participant in the agricultural marketing system. The local buyer are not well informed about wholesale and retail market conditions. The assembly buyer is better informed than the farmer. It is also found, there is lack of information about market conditions and market potential among producers.

Shrestha (1979) has written a thesis with the objectives of finding the distribution system with special reference to Janakpur Cigarette Factory. The researcher found that existing channel is satisfying but not been able to supply the product in demanded or required quantity so there is shortage in market and black marketing is arisen. Dealers are more satisfied by the provided incentives than retailers. Reasons of decreasing sales are delay in supply, unavailability of credit facilities. Low bonus and JCF is careless about quality and packaging of cigarette too. Shortage of product has greatly discouraged to dealers and retailers. Buying and selling prices are fixed by the company. But it is found that most of the dealers and retailers charge higher price than the price fixed by the factory. The researchers suggested that to eradicate black marketing there should be supply adequate quantity of cigarette in market and discharge unnecessary number of dealers who have poor records.

Chitrakar(1983) has carried out a research work on distribution system of biscuits industries. He has found that some of the middlemen were found inactive but the companies did not make an effort to find out the reasons behind it. Similarly, they did not try to understand retail market before developing channel or other distribution strategies. It was also revealed that financial strength and personal relation played more significant roles in selecting sales force, service made available to the retailers and their

management. Caliber received least weightage. His study has also pointed out various combinations of channel arrangement done by Basbari Leather and Shoe Factory at different occasions and the reasons for change made earlier managements. He further stated that classification of dealers over their sales are not durability of shoes and high prices followed by inefficient delivery system.

Pradhan (1987) has carried out a research on marketing practices of Hetauda Kapada Udyog Ltd. with the objectives of discussing the strategies and policies adopted by the company for managing distribution. He has expressed that the company did not have any written and expressed policy about the decisions and the efforts which the company had placed in that variables was insufficient to make effective distribution. The dealers had grievances that they were not getting the goods as per their orders in time.

Poudyal (1995) has carried out a research on distribution channels of feed industry in Nepal. The research has found that the government is not positive in response to the feed industries and government policy also is not clear in the context of feed industries present marketing performance. Every industry its dealers and framers want from the government to restrict the import of poultry products and raw materials from India, which are available in Nepal. Feed industries have no distribution policy. There is lack of professional poultry farmers and committed feed dealers to supply feeds and other facilities regularly from the particular feed industry. Feed industries in Nepal follow three type of channel of distribution. There is an effective impact of distribution cost on sales volume of the feed industries. The distribution cost is increasing along with total cost. Channel members are not technical facility, transportation cost, quality and quantity of feed. Dealers and frames of present channel of feed industry are found less

satisfactory. The researcher recommended that zero level channel of distribution is better practicable in the context of Nepal.

Pokhrel(1995) has written a thesis with the objectives of analyzing the distribution system of Biratnagar Jute Mill and suggest to improve it's present method. The study has also tried to provide proper guidelines for selecting the most economical outlet and searching to find out the existing problems in the way of distribution system. He has found that BJM has no written or expressed policy regarding distribution. The mill has been involving its buying and selling activities from direct system. Sometimes the mill arranges rented trucks and bullock carts to sell its goods. All the production, buying and selling activities of BJM are traditional system till now. But, in the other side, most of the competitors of BJM follow the modern production, buying and selling system. The study has also found that the sales volume of BJM is very high in Nepal and India than Khasha, Bhutan and overseas countries. So the sales position of BJM in international market in comparison with foreign countries is seen higher. The earning capacity of the mill has been also going to decrease because of the decreasing trend in sales and production. BJM has not adopted market segmentation policy also. The mill has not utilized its full capacity due to the lack of modern management as well as modern distribution system. As a result it has faced the problems of decrease in production and sales. Advertisement and other promotional tools have not been used besides of its annual reports and some booklets. BJM has basically followed the direct level (Zero level distribution system or central level distribution system). The physical distribution cost is minimum in comparison to total cost of the factory. There is no legal provision of sales agent. The BJM is using only intensive distribution system. Physical distribution system of BJM has not

any systematic provision of transportation, warehousing, inventory controlling, material handling and other processing activities. He has also found that there is lack of motivation factors among the labors, staff and management, lack of co-operation, good management system and problem of over staffing.

Subedi (1998) has written a thesis with the objectives of research problems of dairy marketing and promotion problems to study the past trend of milk collection and distribution by Dairy Development Corporation (DDC) to suggest methods to overcome existing marketing problems of frames, cooperatives, milk production centers and DDC. The researcher has stated that milk holiday cause anxiety and financial losses to the milk producers and their milk production associations. The quality of milk not collected due to the milk holiday can not be accurately determined. The main cause of milk holiday is the import of power milk and butter oil by DDC. The researcher has suggested that the promotion of milk must be done simultaneously with that of green vegetable. In order to expand the market of milk a "Drink Milk Campaign" should be organized at the local level and national level. Selling and distribution system and distribution cost is high which can be reduced through the privatization of distribution system and sales corners. Farmers do not totally depend on DDC for marketing their milk but establish their own processing and marketing system. The price of milk should be set in consideration of the actual cost of milk production.

Bhatta (1998) has carried out a study on distribution channels of DDC, with the basic objectives that to study the channel of distribution followed by Kathmandu Milk Supply Scheme (KMSS) of DDC to transfer its product from its factory to ultimate customers. Another objective was to investigate the attitude and behavior of the channel members towards its

distribution system. The researcher found in the study that the production of the milk of DDC and demand of the milk by milk-seller is nearly same. The commission received by the dealers is very small so that the proper care of milk to be sold to the consumers can not be maintained by them. Although DDC's main objective is to serve the customers by providing them its production in proper time and proper place, still consumers have to face variety of difficulties to get milk. The thesis is also mentioned that, KMSS has a formal channel of distribution viz. Factory—dealers—customers. The other channels are formed informally due to shortage of milk.

Maharjan (2005) conducted a research study on distribution channel of Him Electronic Pvt Ltd. with the objective of evaluating the distribution system of the company. The researcher found that HEPL is performing well distribution function as 63% if total respondents are satisfied with the present distribution channel. 20% are very satisfied and 19% showed moderate response about present distribution system of the company. Presently, HEPL has adopted four types of distribution channel. Out of them three are recognized by company it self and the last one is practiced by dealers. HEPL has been adopting selective channel strategy. HEPL has been producing and distributing different brands of televisions to its channel members. The company has segment brands of televisions to its channel members. The company has segmented Samsung s premium brand, Daewoo as an economy brand, and Samurai as a low price brand and Himstar as a black and white brand. At present Samsung and Daewoo are very popular brands in the market. HEPL has segmented its' market in 5 regions and appointed total 104 channel members among them 2 are distributors and 102 are dealers. All the channel members are satisfied with the quantity and timely supply of products. Price is the most influencing factor to sell HEPL products for intermediaries among the different factors. From the study it is revealed that the company at



present is providing commission purchase, additional commission/bonus, cash discount and quantity discount as incentive schemes to its dealers. Intermediaries are highly motivated to sell HEPL products.

Chhetri (2007) has written a thesis with the objectives of analyzing the distribution system of vegetables in Pokhara valley with the role played by APMCP in vegetable distribution. The study has also tried to examine the market infrastructure of vegetable, to compare the price of selected vegetables between APMC-Pokhara and Kalimati vegetable market-Kathmandu and to identify the problems faced by farmers, wholesalers and retailers in vegetable distribution. He has found that there is high demand of vegetable in Pokhara but the supply made by APMCP is only around 65% of total demand either around 80% of vegetables is distributed from APMCP in organized form in Pokhara. Vegetable wholesale market (APMCP), Retail market(Shree Complex) and paschimanchal cold storage are endeavoring to make the vegetable market of Pokhara more systematic and better managed. The role played by APMCP to make the vegetable distribution of Pokhara is significant and all the intermediaries are benefited from it along with farmers and consumers too. There is uncertainty in the price of vegetables. The price of vegetables is influenced by the weather and political condition along with the intention of the sellers. During the time of strike the price of some vegetables increase even more than 200%. There is high fluctuation in retail price than wholesale price due to high make-up charged by retailers. He has also found that farmers, wholesalers and retailers are facing various problems in vegetable production and marketing. There is no proper support from ADO to the farmers. APMCP is not efficient to make vegetable market systematic and competitive. Pokhara sub-metropolitan have not paid any attention to the vegetables market. Due to that all the participants of

vegetable distribution are facing hand the consumers of the valley do not get fresh vegetables as per their requirement.

Sharma (2007) has carried out a research on the role of channel of distribution for consumer new product success in Nepal. He has found that to distribute consumer new product distributor or wholesaler are in use. Sales trend of new product is in increasing trend. Distributor/wholesaler are satisfied with product features as well as delivery and term and conditions of payment. Most of them are satisfied with manufacture's new product launching strategy. Competitive position of new product is found good. Distributor or wholesalers are satisfied with manufacturer's dealing. Distributors are playing significant role for new product success. He has also found and suggested many consumer products are distributing all over the country. The main channels used are: Producer to distributor to dealer/wholesaler to sub-dealer to sub-dealer to retailer to consumer channel plays very significant role to extend the market. The main considerations while selecting channel are: market area, population, financial status, sales organization, local prestige, cash deposit etc. Similarly, consideration of geographic and demographic variables for market segmentation strategy is very much important in new product launching. Distributors are providing a lot of support to the manufacturer for new product success. Channel is suggesting to the producer to improve promotional activities, cost control, improvement on packaging, quality standardization, sick product replacements, joint meeting with channel, improvement in sales and distribution system etc. It is necessary to satisfy to the channels by producer with regards to given factors. He also found that channel suggests that market study practice of new product by all manufacturers should perform regularly. Again, companies should improve the dealings with channels to increase their

level of satisfaction. Overall satisfaction to channel is essential because market extension and sales volume of new product largely depends on it.

### **2.16.2 International Context**

Sadhu and Sing (1999) have conducted research on fundamental of Agricultural Economy of India. The research found that the main job in agricultural marketing is how to takeover the responsibility of the produce of the farmer and give him the best benefits and amenities without subjecting him to the intricacies of market transactions. In this respect the co-operative marketing societies were being established prior to 1954 but since then multipurpose societies have been started which on the one hand, provided credit facilities to the farmer and on the other, undertake the responsibility of marketing their surplus produce. The agricultural produce thus collected from members and non-members is processed and then brought to the market (Mandi) for disposal. If current price are not favorable, society may decide to stock the produce. As soon as the produce is sold, farmers are paid their remaining share after deducting the advance already made.

Milton T. Cunningham and T. Rogar Pyatt (1989) have done an exploratory research on the title "Marketing and Purchasing Strategies in the Distribution Channels of Mid-range Computers" with the prime objective to study how hardware manufacturers use and manage the independent distributors in the markets of mid-range computers. Some secondary objectives which were proposed were:

- i) to study the extent to which "interactive" marketing and purchasing is being applied by companies,
- ii) To measure the form and quality of the marketing and purchasing interactions taking place "down" channels to the end-users, and then "up" the channels to the manufacturers.

- iii) To research any conflict in the channels of distribution in order to see how they are being resolved.

The research has highlighted the role which distribution channel intermediaries have performed in the penetration of computers in the business market. Major structural changes have accompanied the growth in the demand for mid-range computers into diverse vertical market segment. The strategy among three major computers manufactures, their value-added distributors and end uses has identified the conflicts which arise in marketing channels under strong competitive pressure; yet attempting to reconcile the technological innovation of suppliers with their end-users needs for system stability and reliable support services has been highlighted. The emphasis of the research study has been on relationship management. This "interactive" approach to high-technology marketing and purchasing was tested by contrasting a traditional mechanistic approach to marketing with the customer-oriented "organic" approach favored by some suppliers.

An article was published in international marketing review about the research done by Goitom Tesfom, Clemens Lutz and Pervez Ghauri (2004) with the objective to examine the organization of export-marketing channels of small to medium-sized enterprises in developing countries. The key question was to understand how and why the organization channels differ between exports to developed and developing countries. A qualitative model was developed to structure the factors that might explain the differences. Transaction cost theory and resource dependency theory were used to identify the factors in the model.

They concluded that for the Ugandan traders, two reasons explained why they are not interested in flexible supply contracts, subcontracting and joint

ventures agreements. Their resource base is too weak to allow for these investment and the quantities involved are too small to justify the choice for fixed partner.

Considering the transactional costs involved, outsourcing the marketing functions in the Netherlands is the best solution for the Eritrean manufacturers. Entry to Ugandan market is difficult as direct investments are needed to serve the buyers in Kampala. Due to the small volumes involved, it doesn't seem to be feasible to invite middlemen from Uganda to buy direct in Eritrea. A solution for this dilemma may be the opening of an intermediate sales outlet (or representative) in the wholesale market in Dubai. Taking into account the resources constraints of the manufacturers in Eritrea. They have drawn the conclusion that entry to the European market may be easier than entry to the Ugandan market.

With regard to the differences observed between channels in developing and developed countries, they further noted that the availability of proper institutions facilitates the exchange process and makes differences in organizing marketing channel. They observed that the marketing channel design for the Ugandan market is shorter than the design for the Dutch market. In Uganda, a lack of institution increases uncertainty and, consequently encourages the integration of distribution functions.

## **2.17 Research Gap**

Most of the manufacturing companies of Nepal have not sufficient information about the factors that are essential in managing distribution channel effectively and efficiently and very few research works have been done in the field of distribution channel management in Nepal. The review of different research works conducted in Nepal as mentioned above are focused to research problems of diary marketing promotion, to study past

trend of milk collection and distribution by DDC, to suggest methods to overcome existing marketing problems of framers, cooperatives, milk production centers of DDC, milk product marketing in Pokhara, strategies and policies and polices adopted by Hetauda Textile Industries Ltd. for managing distribution, policy and strategy in case of distribution in Biscuits industries, Nepalese Handmade paper and Paper Products, distribution System of Janakpur Cigarette Factory, distribution Channels of Feed Industry in Nepal. Distribution System of Biratnagar Jute Mills Ltd, distribution system of vegetable in Pokhara and Role of Channel of distribution for consumer new product success in Nepal.

In the same way the research works by foreigners display how manufacturing use and manage their channels of independent dealer distributors in the marketing of mid-range computer systems. Particular emphasis is placed on organizational interactions and business relations between channel members.

They have examined the organization of export-marketing channels for small to medium-sized enterprises in developing countries and to understand how and why the organization of the channel differs between exports to develop and developing countries.

Only few systematic studies carried out previously in the field of distribution channel management of manufacturing organizations in Nepal. Among them, most of the research works had been done in the field of public enterprises and very few had been done in private enterprises. "The public enterprise sector has been a major user of public resources; but its performance both in terms of financial results and efficient delivery of goods and services had been poor. Moreover, many of the public enterprises are poorly managed and are a prime source of leakage and corruption" (World

Bank, 2000). The PEs were established for achieving the rapid economic development of the country along with balanced regional development, creating public welfare, generating employment opportunities etc; but most of the PEs couldn't meet their objectives. Instead, they suffered losses due to the Government. Because of the mentioned problems the Government has been compelled to think of privatization of PEs.

But in international context we can find different research works have been done but their suggestions and recommendations are very difficult and complex to apply in the context of Nepal. Geographical situation, level of transportation facility availability, economic status and lack of proper knowledge of marketing management entirely effects to manage distribution channels in Nepal than in foreign countries. Most of the business organizations in Nepal are running their business in a traditional way so they are not being able to cope with the present problems raised by globalization in the process of distribution channel management.

Therefore the study would be a bit different from previous studies that have been done in Nepal. All the studies have not been able to give proper consideration for the private sector and the variables that are very essential in the process of distribution i.e. commission, relationship, prompt delivery service, encouragement, channel motivation, participation etc, Therefore, this study would be designed to highlight the distribution channel management of diary product in Pokhara with reference to Sujal Diary.

Demand and supply condition of Sujal Diary product in Pokhara, Price difference between channel members, difference in price of some selected products between Sujal diary products and Ramjanaki and Panthi Diary and the problems faced by framers, wholesalers and retailers are the other distinctions of the study than other previous studies. For these purpose,

especially the primary data are collected and analyzed for recommending suggestions of distribution channels and secondary data are also be used as per its requirements and availability.



## **CHAPTER III**

### **RESEARH METHODOLOGY**

Research methodology is concerned with various methods and techniques, which are used in the process of research studies. It includes wide range of methods, including quantitative techniques for data analysis and presentation. The main objective of the study is to evaluate the distribution system of the Sujal dairy. The methodology has been developed according with the aim of achieving the objectives of the study.

#### **3.1 Research Design**

The study is based on the descriptive and analytical research design in nature. Its focus is on finding the distribution system of Sujal Dairy and to provide necessary possible suggestions for it. Opinions of wholesalers, dealers and consumers have been collected in distribution of dairy product and demand and supply condition of Sujal Dairy product has been studied. The data are collected from Sujal Dairy. What ever drawbacks are lying with the descriptive research design is bounded in the study as well as methodology.

#### **3.2 Nature and Source of Data**

Both the primary and secondary data are used. Primary data are collected through the questionnaire with dealers, consumers, wholesalers and retailers and personal interview with the officer level staff of Dairy from various places. The source of secondary data includes dairy reports with

other books, reports, magazines, journals, DDC, NRB Pokhara and Pokhara Sub-Metropolis.

### **3.3 Sampling Plan**

**3.3.1 Population:** The Population of the study consists of Dairy's Consumers, retail, wholesale and dealer stores owner located in Pokhara Sub-metropolis.

**3.3.2 Sampling Unit:** Sampling unit of the study is the household consumers, dealers, retail and wholesale stores located in the Pokhara Sub-metropolis.

**3.3.3 Sample Size:** The target population of the study is very large. Therefore only 200 household consumers, 3 dealers and 40 wholesalers, out of 3, 20,995 Consumers, 3 dealers and 199 wholesalers respectively are sampled for the study purpose. The sample size used for the study is terribly small in consumption to the population of the study.

**3.3.4 Sampling Method:** As the population of the study is large, stratified judgment and convenience sampling methods has been used to draw the sample from the population. It imposes the limitation of the sampling method adapted in the study.

### **3.4. Data Analysis Tools and Techniques**

Both qualitative and quantitative data have been used. To collect the basic information about the distribution system and marketing of Sujal Dairy products in Pokhara, direct observation and interview have been used. To collect the required data for the problems faced by Consumers, Dealers, Wholesalers and retailers in distribution of dairy product, three separate set of questionnaire for them were prepared. The questionnaire thus prepared

was administered through personal interview at the time and place of respondent's convince. Oral explanation and examples were provided where they were confused on content of the questionnaire. The questionnaires were pre-tested 4 questionnaires in consumer's survey, 2 questionnaires in dealer's stores and 4 wholesale stores survey. After that the questionnaires were made short by avoiding unnecessary questions. The questions which are needed for the purpose of achieving required information for the objectives of the study were finalized and administered for the interview. The sample of the questionnaire is given in an annex.

After the data collection various statistical tools have been used to analyze and interpret the data such as table, bar graph etc.

## **CHAPTER IV**

### **DATA ANALYSIS AND PRESENTATION**

The study is based on primary as well as secondary data. Primary data are collected through questionnaire and interview of channel members and secondary data are collected from the official records and publications. Respondents are taken from all parts of Pokhara municipality. Full attention has been given while taking required information, so that the information can represent true facts and finding of the total population as far as possible. This chapter includes the data presentation, analysis and interpretation.

#### **4.1 Milk Collection System**

Marketing of milk products begins with the collection of raw milk. This process involves collection, processing, packaging and distribution. The process can be presented diagrammatically as follows:

Collection    Processing    packaging    distribution    consumption.

Sujal Dairy collects raw milk from the farmers of different village and areas of this region. Thus collected raw milk is taken to the processing centre in Pokhara with the help of road transportation.

There are around 144 milk co-operative agencies and 22 milk collection centers at various places. The average milk collection per day in peak season is more than 25,000 liters whereas, it is as low as 20, 000 liters during dry seasons. Around 15,000 farmers rely on Sujal dairy to sell milk.

In order to fulfill the demand of fresh and purified milk in the valley, the Sujal dairy has supplied 7,000 metric tons of milk in fiscal year 2064/65 which is 23.14 percentage increase than that of previous year.

Similarly, the production of milk and milk products has also increased in recent years.

There are several milk collection centers and co-operatives agencies where farmers sell their cattle milk daily. The collector of those centers performs S.N.F. test, Lactometer test and fat test on collected milk individually and as a whole. The milk thus collected is sent to dairy if the collection center is nearby Sujal dairy and if it is far away from Sujal dairy, then the collected milk is sent to nearby chilling centre. The milk received at chilling center is sent to Sujal dairy on the following day. Then, the process of pasteurization process begins and standard milk, whole milk, curd, ghee, butter, ice-cream etc. are produced. The milk products are sent to wholesalers and then booth for sell.

Sujal dairy collects the milk from the local milkman for its raw milk requirement. There are milk collection centers in the peripheral rural areas of Kaski, Syangja, and Tanahun districts. The farmers of the surrounding area carry their milk in the morning and evening. The chilling centers control and supervise the milk collecting centers. When the farmers bring the milk, then there is a system of checking the quality of milk. Such collection centers use the fat test and lactometer test etc. as mentioned above. In the fat test, the milk should have 4% fat and in the lactometer test, it should have 25% of lactometer. Otherwise, they can not accept that raw milk because the milk supply scheme should run under the government rules and regulations. There must be 25-28 of the lactometer and 3% of fat to sell.

The milk collected in the evening and the following morning is transformed to the milk-chilling centre and then finally transformed to the Sujal dairy within 4-hour period. In those areas, farmers collect buffalos and

cow milk. The buffalo milk contains more fat than the cow. The price of milk is fixed according to the seasonal variation.

As mentioned earlier bacteria quickly spoil the milk if it is kept for a few hours (more than 4 hours) without chilling. So it is needed to be chilled as soon as milking from the cattle. Rural area's farmers walk 4-5 hours on feet to deliver the milk at collection centers and even they collect morning and evening milk together which are the risky processes. So, Sujal has managed the chilling centers in the different parts of this region. The detail information of chilling centers is mentioned in the introduction chapter above .

#### **4.1.1 Demand and Supply of Milk of Sujal Dairy**

Pokhara, being the centre of western region of Nepal, is having one of the highest population growth rate in Nepal. As the population increases, the demand of several others consumable goods also increases. So, the demand of milk and milk products in this municipality is on the rise. These kinds of milk products are used in commercial and household purposes. The process of raw milk collection is carried out by various collection centers in and outside Pokhara valley. As this milk and milk product production business is being popular day by day and hence numbers of dairy also increased, even in some part of Pokhara the farmers directly sell the milk to consumers by reaching door to door.

Demand for a product is the total volume that would be bought by a defined customers group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program (kotler, 2000). Demand estimation can be done through total market potential and area market potential.

Likewise, the quantities of a good that individual firm is willing and able to offer for sale over a given time period is defined as supply. Supply of a commodity is the schedules of the quantities of a commodity that would be offered for sale at all possible prices at any one instant of time or during any one period of time (Devkota and Ghimire, 2004).

#### **4.1.2 Demand of Milk in Pokhara**

According to the census 2001, the population of Pokhara sub-metropolis was 1, 94,619. It is rapidly increasing day by day. The annual population growth rate of PSMC was 7.41% at that time. The annual population growth rate is assumed as 6.5% and 6% in the fiscal year 2004-2008 and 2009-2016 respectively so that the total population is assumed to be 3,20, 995 in 2008 A.D. The demand of any consumable commodity is based on the population of a particular location.

The demand estimation is made on the basis of average annual consumption of a person, average annual consumption of hotel and restaurants, household consumers and business consumers.

The current population of Pokhara Municipality is 3, 20,995 and the total no. of household is 42,667. If each family of the valley consumes 2 ltrs. of milk then the demand is 85,334 ltrs. per day.

The annual average milk consumption of a person is around 95.7 liters, hotel is around 1,62,635.3 and the annual average consumption of restaurant is around 1,08,423.5 ltrs. While estimating annual demand of hotel and restaurant, it is assumed that the daily average consumption of a hotel is 12 ltrs. and 8 ltrs. per restaurant (MOA, 2004). The number of hotels and restaurants included in the study are the data of 2063. However, the occupancy of hotels in Pokhara was around 30% in 2063 and 2064 due to various reasons. Milk and milk product is a basic component of our dietary

schedule. So, the total demand of milk in Pokhara is estimated on the basis of population of Pokhara, number of hotels and restaurants of Pokhara running at 30% capacity. On the basis of this estimation the demand of milk is increasing every year. The population of Pokhara and the population projection up to 2010 A.D. along with the demand of milk in metric tons is presented below:

**Table: 4.1**

**Total Population and Demand of Milk in Pokhara**

<b>Year</b>	<b>Population</b>	<b>Demand of Milk (in metric tons)</b>
2001	1,94,019	9,283.8
2002	2,09,041	9,779
2003	2,24,531	10,012
2004	2,41,168	10,890
2005	2,59,039	11,232
2006	2,78,234	11,988
2007	2,98,851	12,679
2008	3,20,995	13,510
2009	3,44,751	13,950
2010	3,70,330	14,440

*Source: Golden Jubilee souvenir, PCCI, 2063*

Note: The figures for 2009 and 2010 are projected figures.

Table 4.1 depicts that the demand of milk in Pokhara was 18,567.6 metric tons in 2001, 28,719 metric tons in 2008 and it will be 33,440 metric tons in the year 2010 if the number of hotels and restaurants remains in operation with the estimated occupancy of hotels.



Due to rapid growth of population and tourist destination, the demand of milk is high in quantity. So, milk collection and marketing has the great potentiality and scope in Pokhara.

#### 4.1.3 Supply of Milk of Sujal Dairy in Pokhara

Total supply made from Sujal dairy annually has calculated by totaling the monthly sales volume of 12 months of every year. During the study period the annual supply of milk made by Sujal dairy in metric tons is presented below:

**Table: 4.2**  
**Supply of Milk from Sujal Dairy**

<b>Year</b>	<b>Supply from Sujal Dairy( in metric tons)</b>	<b>Others supply ( in metric tons)</b>	<b>Total supply(in metric tons)</b>
2059	6,545(55.06%)	5,321.9(44.9%)	11,866.9
2060	6,545(55.06%)	5,321.9(44.9%)	11,866.9
2061	5,380(51.29%)	5,108(48.71%)	10,488
2062	5,380(51.29%)	5,108(48.71%)	10,488
2063	7,000(51.55%)	6,577.16(48.45%)	13,577.16
2064	7,000(51.55%)	6,577.16(48.45%)	13,577.16

*Source: Sujal dairy, 2008 Pokhara.*

Table 4.2 shows that the supply made by Sujal dairy since 2059 to 2064. The highest annual supply of milk of Sujal dairy was found in 2059 and 2060 (55.06%) in respect to others (44.9%) whereas the lowest annual supply of milk of Sujal dairy was found in 2061 and 2062 (51.29%). The above data also reveals that the total annual supply of milk from Sujal dairy was in equal amount in the year 2059 and 2060 (6,545) similarly, equal supply in 2061 and 2062 (5,380) likewise, equal quantity of supply in 2063

and 2064(7,000). However, the milk supply by Sujal dairy is more than 50% of total supply in each year.

The remaining portion of milk is supplied by other different dairy such as Shree Krishna dairy, Panthi dairy, Sanjeevani dairy, Ramjanaki dairy, Nagdanda Dugdha Sansthan etc. The volume of milk supplied from other dairy is 5,321.9 metric tons in 2059 whereas it is 6,577. 16 metric tons in 2064. The annual supply made from other dairy is 5,321.9 metric tons, 5,108 metric tons, 5,108 metric tons and 6,577 metric tons in the year 2060, 2061, 2062 and 2063 respectively. The milk supplied from Sujal dairy is in more demand than that of the other dairy.

#### **4.1.4 Monthly Supply of Milk from Sujal Dairy**

Table 4.3 below indicates that in the year 2059/60, Sujal dairy supplied 575 metric tons from the month of Baisakh to Ashwin and 515 metric tons from the month Kartik to Chaitra. Similarly, during the year 061/062, it seems 485 metric tons is supplied from the month of Baiskah to Ashwin and 411.66 metric tons from the month of Kartik to Chaitra.

**Table: 4.3**

**Monthly Supply of Milk from Sujal Dairy (metric tons)**

<b>Year</b>	<b>2059/60</b>	<b>2061/62</b>	<b>2063/64</b>
<b>Month</b>			
<b>Baishakh- Ashwin</b>	573	485	650
<b>Kartik-Chaitra</b>	515	411.66	516.66

Likewise, to the high demand of milk it seems, Sujal dairy is able to supply more than 650 metric tons of milk from the months of Baisakh to Chaitra in the year 063/064 and 516.66 metric tons in the month of Kartik to Chaitra.

The monthly quantity supply of milk of Sujal dairy in various years is shown in the figure.

**Figure: 4.1**

**Monthly Supply of Milk (In metric tons)**

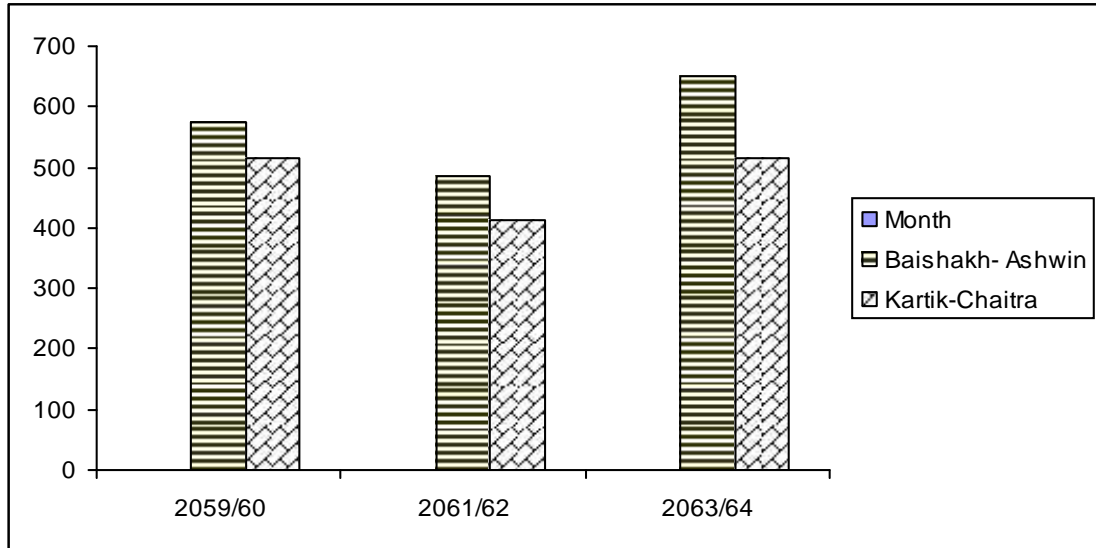


Figure indicates that the monthly supply of milk from Sujal dairy in fiscal year 2059/60, 2061/62 and 2063/64. It is clear that the supply of milk in the month of Baishakh to Ashwin is higher than that of the month kartik to Chaitra.

The data reveals that sufficient milk for consumption during the peak season ( Baisakh-Ashwin) in Pokhara the demand and supply of milk from Sujal dairy is increasing.

#### **4.2 Distribution Channels of Sujal Dairy**

The market of milk product is very complex and risky due to the perishable nature of the produce item and seasonal production. Different prices and qualities of milk products are available in the market. Features and technical knowledge is essential to deal with the customers. Presently, Sujal dairy has adopted the following distribution channels.

i) Zero-level (Sujal Dairy- Customers)

This is the shortest channel used by Sujal dairy. In this channel sujaldairy directly supplies the milks to the consumers on its own responsibility such as door to door sales, home parties, mail order, telemarketing etc. But the other dairy products are not distributed by using this channel.

ii) One level (Sujal Dairy Dealer Customer)

The second channel of distribution used by Sujal Dairy is one level distribution channel. There is one intermediary i.e dealers. Sujal Dairy distributes its products to dealers and they directly sell to the customers. Some dealers are distributing products to other retailers (Departmental Stores) within their own management and responsibility for the supply of milk the dairy uses only zero level.

iii) Two-level (Sujal Dairy Dealer Wholesaler Customer)

The third channel of distribution used by Sujal Dairy is two level distribution channels. It contains two intermediaries' i.e wholesalers and dealers. In this level, the dairy directly supply the products to dealers and pay certain extra nominal commission to the wholesalers for the products supplied to the dealers. Recommendation from dealers is necessary to appoint wholesalers in their territory considering the factors that is specified by the dairy. The dealer's responsibility is to control and monitor the market. Dealer's is also partially responsible to pay credit amount if the dairy is unable to pay its outstanding.

- iv) Three– level (Suja Dairy Dealer Wholesaler Retailer Customer)

The fourth channel of distribution used by Sujal Dairy is three level distribution channels. It contains three intermediaries' i.e dealer, wholesaler and retailer. Due to criteria to appoint one dealer at one market most of the customers can not purchase the dairy products through its dealers only and hence common retailers is the more common channel of the ultimate customers. Although this channel is more common, more popular and easier for the customers to buy products, yet it is not recognized by the dairy because of the nature of the product. In this channel the dealer supplies its products to different wholesalers and retailers in its own rational judgment. The rates for the wholesalers and retailers are different according to the dealers but the rates for the customers by the retailers are equal. It is the largest channel of distribution of dairy products but it is not used for the distribution of milk.

#### **4.2.1 Criteria for Appointing Dealers, Wholesalers and Retailers**

Dairy has specified some criteria to appointing dealers, wholesalers and retailers. These criteria are:

- i) Financial position
- ii) Experience in the field
- iii) Reputation in business
- iv) Product dealing capacity and coverage capacity
- v) Staff
- vi) Location of the market

#### **4.2.2 Major Functions Need to Perform by Channel Members**

The major functions that the channel members generally need to perform are:

- i) Easily products available to the market
- ii) Work as a dairy representative
- iii) Forecast sales within their territory
- iv) Market generate within their territory
- v) Provide prompt market information to the dairy
- vi) Work as an intermediaries between dairy and market
- vii) Support dairy to organize different promotional activities with in their territory.

Even channel members perform such functions successfully the dealers not have any authority to fix price of the product and they are not found conducting promotional and other activities regularly.

### **4.3 Competitive Price List of Sujal Dairy, Ramjanki and Panthi Dairy**

Before to compare the price of Sujal Dairy products with the others (Ramjanaki and Panthi Dairy), at the first, it is better to show the products and quantity supply of them. So, some selected products and their quantity supply are presented below.

#### **4.3.1 Ramjanaki Dairy**

It was established in 2057 B.S. with 60 staffs. It is situated at Pokhara municipality ward number 8, Simalchour. Its head office is at Janakpur. This Pokhara office is its branch. This dairy collects raw milk from the terai districts like Bara, Parasa etc. and distributes various dairy products. It has more than 300 sales booths. The main focus of this study is given to sujral dairy whereas the others have just introduced.

**Table: 4.4**

**Annual Supply of Ramjanaki Dairy (Metric tons)**

<b>Products</b>	<b>2059/060</b>	<b>2061/062</b>	<b>2063/064</b>
Milk	2783	3315	2765
Ghee	60	75	82
Curd	200	230	260
Ice-cream	2.10	3.*0	3.0

*Source: Ramjanaki Dairy, 2008*

As seen in the above table, Ramjanaki dairy has supplied 2,783 metric tons milk, 60 metric tons of ghee, 200 metric tons curd and 2.10 metric tons of ice-cream in 2059/060. Similarly, in 2061/62, it has supplied 3,315 metric tons milk, 75 metric tons Ghee, 230 metric tons curd and 3.0 metric tons Ice-cream and in 2063/064, it has supplied, 2,765 metric tons milk, 82 metric tons Ghee, 260 metric tons Curd and 3.0 metric tons Ice-cream. Comparatively it seems the supply of Milk is high and low in different years but the supply of ghee, curd and ice-cream is high in every year.

**4.3.2 Panthi Dairy**

It was established in 2056 B.S. with 8 staff. It is situated at Pokhara-4, Chipledungha. This dairy collects the saw milk from the various parts of this region. It has more than 20 sales booths. About 2090 farmers of different districts are collected the milk.

**Table: 4.5**

**Annual Supply of Panthi Dairy (Metric tons)**

<b>Products</b>	<b>2059/60</b>	<b>2061/62</b>	<b>2063/64</b>
Milk	145	152	552.10
Ghee	3	3	3
Curd	20	23	109.5
Ice-cream	4	4	10

*Source: Panthi Dairy, 2008*

As seen in table 4.5, Panthi dairy has supplied 145 metric tons of milk, 3 metric tons of ghee, 20 metric tons of Curd and 4 metric tons of Ice-cream in the fiscal year 2059/060. Similarly, in 2061/62 it has supplied 152 metric tons, 3 metric tons, 23 metric tons and 4 metric tons of milk, Ghee, Curd and Ice-Cream respectively. In fiscal year 2063/064 the dairy has supplied 552 metric tons of milk, 2 metric tons of Ghee, 109.5 metric tons of curd and 10 metric tons of ice-cream. It seems that the quantity supplies of its product are increasing every year.

**4.4.3 Price Differences of Sujal Dairy Product and Ramjanaki Dairy & Panthi Dairy**

Price is the marketing mix element that produces revenue, the others produce costs. Price is also one of the most flexible elements which can be changed quickly unlike product features and channel commitments. Price has the direct impact on demand of any commodity to be purchased. Milk product is an essential component of the daily dietary schedule of people. The quantity of dairy products consumed may be changed due to the change in price of the products. There is price difference in the same products



between the various channel members also. Here it is compared the price between Sujal Dairy products and other dairy.

**Table: 4.6**

**Price Comparison of Sujal Dairy and Others**

<b>Commodity</b>	<b>Price in Sujal dairy</b>	<b>Prices in Ramjanaki dairy</b>	<b>Panthi dairy</b>
Standard milk 500ml	17	17	17
Whole milk 500ml	19	19	19
Yoghurt 500 ml.	52	50	49
Ice cream cup 100 ml.	15	14	14
Salted butter 500 grm.	340	270	280
Nauni ghee 1 kg.	310	280	270
Paneer 1 kg.	290	220	220

*Source: Field Survey, 2008*

The table indicates that the price of the produced items in different dairy. The price of same items like standard milk 500ml and whole milk 500ml is same in Sujal dairy, Ramjanaki dairy and Panthi dairy that is Rs. 17 and Rs.19 respectively. The price of yoghurt 500ml in Sujal dairy is Rs.52 whereas the same amount of yoghurt in Ramjanaki and Panthi dairy is Rs. 50 and Rs.49 respectively. Similarly, the price of ice-cream cup 100ml is Rs.15 in Sujal dairy but the price of same ice-cream in Ramjanaki and Panthi dairy is same i.e Rs.14. Table also shows that the price of salted butter 500gm in Sujal dairy is Rs.340 whereas the price of it in Ramjanaki and Panthi dairy is Rs. 270 and Rs. 280 respectively. Similarly, the price of Nauni ghee 1 kg is Rs.310 in Sujal dairy but the price of same Ghee is cheap on Ramjanaki and Panthi dairy that is Rs.280 and Rs.270 respectively. Further more, the price of paneer 1 kg on Sujal dairy is Rs.290 where as the price of same amount of paneer in Ramjanaki and Panthi dairy is same i.e. Rs.70 which is cheaper than that of Sujal dairy. So from the table, it can be

said that the price of standard milk 500ml and whole milk 500ml is same in all three dairy. Comparatively it seems that the price of other items except milk are expensive in Sujal dairy than that of Ramjanki and Panthi dairy because of high demand of Sujal dairy products. The price of few products such as yoghurt, Nauri ghee is low on Ramjanaki than that of Panthi dairy whereas the price of salted butter is higher on Panthi dairy than that of Ramjanaki dairy. But the price of ice-cream and paneer of same on both dairy.

The price comparison of some selected products is made among three dairies is shown in the given figure.

**Figure: 4.2**

Price of Majors Products in Different Dairy (Metric tons)

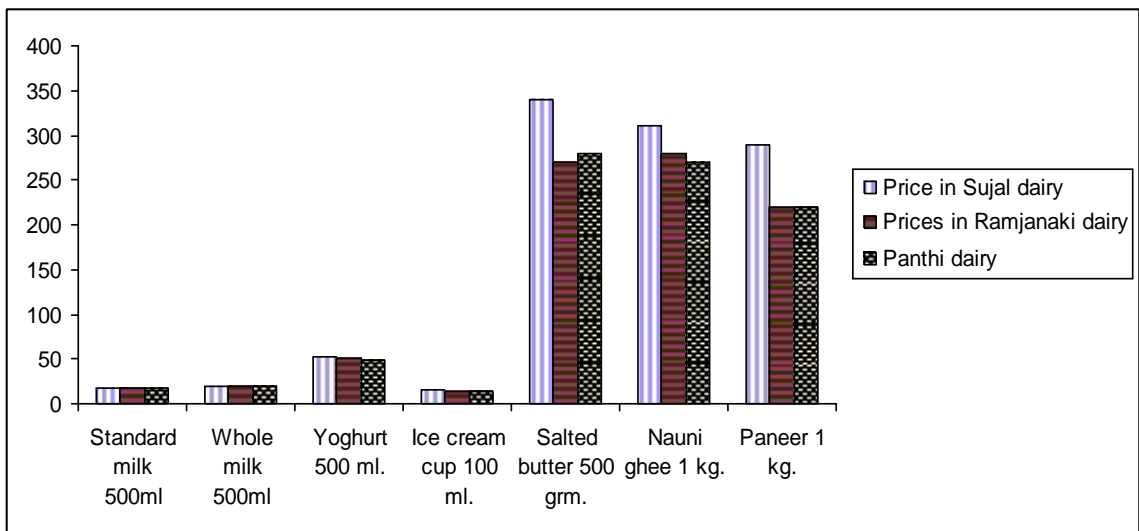


Fig.4.9 show that price of selected product of Sujal dairy and Ramjanaki and Panthi dairy. The price of most of the products is higher in Sujal dairy than others. There is nominal price difference between the products of Ramjanaki and Panthi dairy. However, the price of milk is same in all dairy.

#### 4.4 Problems of Different Channel Members

With a view to collect opinions of the different problem faced by different channel members of Sujal dairy products distribution and marketing. The problems of dealers, wholesalers and consumers in dairy products distribution are given below:

##### 4.4.1 Supply of Products and Wastage

In order to find out how far the dairy is successful in distributing its products to its products to its channel members, they were asked the following questions:

- Does the dairy supply the products in time?
- Are you satisfied with the quantity supplied by the dairy?
- What is the percentage of wastages of milk product?

In response of the above question the selected channel member's view is given below:

**Table: 4.7**  
**Responses About Timely Supply and Wastage**

<b>Responses</b>	<b>Yes (%)</b>	<b>No (%)</b>
Supply in time	95	5
Satisfied	93	7
Wastage	-	100

*Source: Field Survey, 2008*

Table 4.7 reveals that out of 243 selected channel members of various place, 95% members said that they receive Sujal dairy product in time but only 5% members said that they are not receiving the products in time. 93% of total selected members said that they are satisfied with the quantity supplied by the dairy whereas 7% are dissatisfied with the quantity. But all(100%) said that there is no wastage of milk products provided by Sujal

dairy. So, it can be said that there is no wastage of products at channel member's shop because the packaging of dairy is good and the dairy takes the wastage products itself. There is no loss of channel members.

#### 4.4.2 Frequency of Order

As there are no any certain criteria for frequency of order, the dealers do order as per their requirements. All channel members said that if there are good sales they can order more daily and if there are slow sales then they can minimize the order. They give 2/3 times order on same day if there are better sales.

#### 4.4.3 Responses about existing distribution system

A question related to existing system of distribution was asked to know the level of satisfaction about existing channel of distribution to responders. In the response to it given table is formed.

Table: 4.8

#### Respondents' response of different Channels

Response	Dealers	Wholesalers	Consumers	Total
Satisfactory	3	23	86	112(46.1%)
Moderate	-	14	103	117(48.14%)
Unsatisfactory	-	3	11	14(5.76%)
Total	3	40	200	243(100%)

*Source: Field Survey, 2008*

Table 4.8 depicts that out of 243 respondents, 112 respondents (3 dealers, 23 wholesalers and 86 consumers) is 46.1% are satisfied with the present distribution system. Maximum channel members i.e. 117 (48.14%) are showed moderate response about the present distribution system but 14

responds i.e. 5.76% showed dissatisfaction about the present distribution system of Sujal dairy.

#### **4.4.4 Problems of Consumers**

198 households consumer were interview by selecting 11 households consumers from each ward of Pokhara metropolitan. All the consumers said that they are consumed the milk and milk products dairy. Out of 198, 124 (62.62%) are consumed the Sujal dairy product and 74 (37.37%) are consumed others dairy products. The different problems faced by household consumers in distribution, marketing and consumption in Pokhara are given below in different points.

- ❖ Lack of convenient storage facility.
- ❖ Lack of market information.
- ❖ High price of the milk product.
- ❖ Price differences on products among the dairies.
- ❖ Lack of easy transportation.
- ❖ Availability of low quality milk and milk products.
- ❖ Full control in determining price of milk products by the dairy.
- ❖ Lack of quantity discount.

#### **4.4.6 Problems of Wholesalers**

Out of 199 wholesalers, 40 were interviewed. There are varieties of problems accoutered by wholesales in Sujal dairy product distribution in Pokhara. The major problems are presented below:-

- ❖ Lack of easy loan facility.
- ❖ Lack of proper storage facility.
- ❖ Lack of market information.
- ❖ Problems in regular supply of dairy products due to Nepal Banda.
- ❖ Nominal wastage of dairy products.

- ❖ Lack of proper grading system of dairy products.
- ❖ High price of dairy products.
- ❖ Lack of systematic management of wholesale dairy products market.
- ❖ Lack of credit facility.
- ❖ Lack of cash discount.
- ❖ Lack of quantity discount.
- ❖ Unavailability of the Sujal dairy products in proper time to distributing the products too late i.e. 6or 7 Am sometimes due to late arrival of vehicles.

#### **4.4.7 Problem of Dealers**

All 3 (100%) dealers of Sujal dairy products distribution in Pokhara Bibhu Traders, *Chipledhunga*, Badgami Traders, *Palikechowk* and New Bhagawati Traders, *Darbarthok* were interviewed. The different problems faced by dealers in Sujal dairy products distribution are listed below:

- ❖ Non-availability of easy institutional loan facility.
- ❖ Lack of proper storage facility.
- ❖ Unavailability of the dairy products in needed especially in social and religions festivals.
- ❖ High price of the dairy product.
- ❖ Problems of location.
- ❖ Lack of incentives.
- ❖ Lack of quantity discount.
- ❖ Lack of heavy rebate in price.
- ❖ Lack of cash discount.
- ❖ Lack of Commission purchase.

## 4.5 Major Findings

On the basis of analysis, the research comes to the following findings.

- There are 12 dairies operating in Pokhara valley. Among them Sujal Dairy is the biggest dairy. It collects 7000 metric tons milk annually. It produces milk (whole and standard), ghee, ice-cream, paneer, butter etc.
- The demand of milk in Pokhara is 11,232 Metric tons in the year 2005 A.D. and 13,510 in 2008 A.D. The milk supply made from Sujal dairy is also shows increasing trend in the recent year. The supply made from Sujal dairy is around 51.29 % in the year 2005 A.D. and 51.5% in the year 2008 A.D., out of total demand of milk.
- While comparing the price of some selected dairy products between Sujal dairy and Ramjanaki at parthi, the price of most of the products is higher in Sujal dairy. However, the price of milk (Standard and whole) in all dairy is the same.
- Sujal dairy has 22 chilling centres in various districts.
- There are 3 dealers, 199 wholesalers with departmental stores, 819 retailers. About 3, 20,995 consumers are benefited from it.
- Channel member order products as per their requirement and there are no any certain criteria for frequency of order.
- About 93% channel members are satisfied and 7% are unsatisfied with the quantity and timely supply of the products.
- The farmers from near by area of Pokhara sell milk directly to the customers.

- Sujal dairy has been adopting only few number of dealers 3 in Pokhara valley since it has been adopting selective channel strategy.
- The distribution systems of dairy seems fair because the dairy has been adopting three level channel which has been through Manufacturer, dealer, wholesaler, retailer and consumer.
- Price of the products is controlled by Sujal dairy central committee.
- The numbers of items are produced according to season.
- The problems of consumers in dairy products and marketing are lack of easy lack of market information, lack of convenient storage facility, high price of the products Availability of low quality milk and milk products.Lack of quantity discount. etc.
- The problems of wholesalers of dairy product distribution are lack of storage facility, problems in regular supply, high price of dairy products, lack of systematic management of wholesale market, lack of credit facilities, lack of incentives etc.
- The problems of dealers of Sujal dairy product distribution are lack of proper storage facilities, problems of location, lack of quantity discount, lack of cash discount, lack of commission purchase etc.



## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary:**

Marketing is the process of meeting customers need profitably. It is the bridge between producers and customers. Marketing has gained new dimensions in recent years of societal, marketing concept, which aims maximizing social welfare through delivering goods and service from producers to consumers. Marketing begins with identifying needs and wants of customers and ends with satisfying the customers wants efficiently than competitors. It is the process of planning and executing the conception, pricing, promoting and distribution of ideas, goods and services to create exchange that satisfy individual and organizational goals.

Distribution is the means for getting the products to the target market. It involves marketing channels and physical distribution. Marketing channels make the product available to the customers and physical distribution makes the product accessible to the channel members as well as customers. Marketing channels are the system of relationship among the various persons and institutions involved in the process of movement and ownership of products and facilitating exchanges. The channel of distribution is a means of actual placing of appropriate quality in the right place at right time in minimum prices. So, the channel of distribution is viewed as the sequence of firms involved in moving a product from producers to customers.

The study has been conducted with the general objectives of analyzing the exiting distribution system of dairy products of Sujal dairy in Pokhara. The specific objectives of the study were to examine the demand and supply

condition of milk provided by sujal dairy, distribution channels adopted by sujal dairy in products marketing, price difference between Sujal dairy products and Ramjanaki and Panthi dairy and the problems faced by consumers (farmers) dealers, wholesalers . Several materials were reviewed in order to build up the conceptual foundation to find out the ultimate crux of the research work. Different components of distribution were reviewed as conceptual review. On the other hand, review of articles and dissertations were included diving into two parts Viz. Nepalese context and foreign context in research review selection of the thesis.

The research covers only six years period from 2059 to 2064 B.S. The study based on descriptive and analytical research design. The sample for the study comprised of 3 dealers, 40 wholesalers and 200 consumers. Sample has drawn with the help of judgmental and convenience sampling technique. The study is based on primary as well as secondary data. The primary data were collected using structured and unstructured interview from the sample respondents with the help of questionnaire. The data obtained were analyzed using various descriptive statistical tools to get the meaningful results and present in tabular forms and charts.

The demand and supply condition of milk provided by sujal dairy is in increasing trend. The Significant portion of dairy products has supplied by sujal dairy out of total demand of dairy products. For the collections& products distributions there are 144 milk co-operative centers, 22 chilling centers, 819 retailers, 199 wholesalers and 3 dealers of sujal dairy. Farmers, wholesalers, retailers, dealers are benefited from the sujal dairy. For the sake of distribution there are different channels of distribution in which dairy undertake one or more channels to distributes its finished products. For the distribution of milk, sujal dairy adopted one level of distribution channel i.e.

dairy to retailers and then consumers where as the dairy used three different types of distribution channels for the products marketing in pokhara. While comparing the price of some selected diary products between sujal dairy and Ramjanaki dairy and Panthi dairy, the price of the standard milk and whole milk is same whereas the price of most of the products of sujal dairy is higher than that of Ramjanaki & panthi dairy. Different problems of farmers (consumers) wholesalers and dealers were revealed. The major problems of consumers are lack of storage facility, lack of market information, lack of easy transportation, lack of commission etc. Similarly, the wholesalers and dealers are not also free from different problems of their own kind. So, capturing a large share of market along with the fulfillment of other dairy and marketing objectivities require and effective marketing system. Sujal dairy needs to formulate the new strategies in accordance to demand of people.

## **5.2 Conclusion:**

On the basis of the findings the researcher has drawn the following conclusions:

- There is high demand of milk and milk product in Pokhara but the supply made by Sujal dairy is only around 52% of total demand. So, Sujal dairy has enough scope to increase the supply volume of milk by making the market more competitive.
- The dairy supplies the high volume of milk in the month of Baishakh to Ashoj whereas it supplies low volume of milk in the month of Kartik to Chaitra.
- Sujal dairy becomes the most preferred dairy product company among consumers which has more than 144 milk co-operative

centers, 22 chilling centers, 819 retailers, 199 wholesalers and 3 dealers.

- The role played by sujal dairy to make the dairy products distributions of Pokhara is significant and all the intermediaries are benefited from it along with farmers and consumers too.
- The distribution system of dairy seems fair because the dairy has been adopting 3 level channels in dairy products distribution which has been through dairy, dealers, wholesalers, retailers and consumers. This dairy adopting only few numbers of dealers i.e. 3 since it has been adopting selective channel strategy.
- The average price of the most of the products of Sujal dairy is high in comparison to Ramjanki and Panthi dairy. But the price of whole milk & standard milk is same in all dairy. The reason behind that the price is high in Sujal dairy is high demand of its products than others.
- Dealers, wholesalers and consumers are facing various problems in distributions of dairy products. There is location problem, no quantity discount, incentives, rebate in price, and cash-discount from the Sujal dairy.

### **5.3 Recommendations**

On the basis of findings drawn from this study, following suggestions and recommendations are advised to the concerned authorities in order to improve the distribution system of Sujal dairy products.

- The demand of milk of Sujal dairy is high. So it is better to increase the supply of milk from Sujal dairy.

- Sujal dairy needs to increase the number of dealer's according to the size of the market as only 3 dealers for a particular market cannot cover the market.
- The longer channels of distribution make the price of milk products expensive. So, it is recommended to Sujal Dairy to adopt the shorter channel of distribution to make the products distribution effective in a competitive price.
- During peak season, the milk is easily available in the market that means dairy supplies more milk in the market but in false season the dairy supplies less quantity of milk in the market so that there is shortage of milk. So, it is better to distribute milk equally round the year.
- To aware all distribution channels and reposition it in the market, the company may need to go for large-scale advertisement on TV, FM and radio.
- Keeping in view the increasing competition, it may be good for the company to establish market research unit to be better equipped with market information to outperform competition.
- Keeping in view, the channel members are facing the problems in distribution of products; the dairy should increase the facilities given to the channel members in existing period.

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**APPENDIX**  
**SURVEY QUESTIONNAIRE FOR WHOLESALERS**

This questionnaire is framed with a view to conduct a research work on “Distribution system of Sujal Dairy Product in Pokhara” for the partial fulfillment for the degree of masters of Business Studies (M.B.S). I need your kind co-operation for the same. You are requested to fill up the questionnaire provide to you with the best of your knowledge. While filling up the questionnaire you are kindly requested to fill up as you feel is right without being prejudiced of what is being expected out of you and also in the sequence given. Your kind co-operation in this regard will be highly appreciated.

Name: Rajendra Prasad Subedi Date:

Address: Bagar-1 Pokhara (Phedikhola-2 Syangja)

- 1) Since how many years you have been running this business?
  - a) Less than 1 year
  - b) 1-3 years
  - c) 3-6 years
  - d) More than 6 years
- 2) Do you sell all types of products?
  - a) Yes
  - b) No
- 3) What is your sales volume per day?
  - a) Less than 300 ltrs
  - b) 300-600 ltrs
  - c) 600 - 900 ltrs
  - d) More than 900 ltrs.
- 4) Do you easily get every product from Sujal dairy on time?
  - a) Yes
  - b) Sometime
  - c) No
  - d) None
- 5) Are you satisfied with the quantity supplied by the dairy?

- a) Yes                      b) No
- 6) Don't you face any types of difficulties from the present delivery system of Sujal Dairy?  
a) Yes                      b) No
- 7) Do you have own storage?  
a) Yes                      b) No  
If No, how do you store the dairy product?
- 8) What kind of products do you sell?  
a) Seasonal                b) Off-Seasonal
- 9) What is the price of the following milk product in this season?  
a) Standard milk 1 ltr                Rs. \_\_\_\_\_  
b) Whole milk 1 ltr                    Rs. \_\_\_\_\_  
c) Ghee 1 ltr                                Rs. \_\_\_\_\_  
d) Ice Cream 1 ltr                        Rs. \_\_\_\_\_  
e) Curd 1 ltr                                 Rs. \_\_\_\_\_  
f) Paneer 1 kg                              Rs. \_\_\_\_\_  
g) Butter 1 kg                                Rs. \_\_\_\_\_  
h) Nauri 1 kg                                 Rs. \_\_\_\_\_
- 10) Are you fully satisfy the distribution system of Sujal Dairy?  
a) Satisfactory                b) Moderate                c) Unsatisfactory
- 11) What is the percentage of wastage of milk product?  
a) No    b) Less than 5%  
c) 5-10%    d) Above 10%
- 12) Which factor influence (problems) you to sell products of Sujal Dairy?  
a. Location    .....
- b Storage problem    .....

- c Wastage Problem .....
- d Price Fluctuation Risk .....
- e Brand of the product .....
- f Credit facility problem .....
- g Regular Supply on time .....
- h Incentives .....
- i If others, please specify .....

13) What types of compensation schemes do you get from the Dairy?

- a) Commission purchase
- b) Additional /Commission / Bonus
- c) Cash discount
- d) Rebate in price
- e) Quantity discount
- f) Others

14) Do you have any suggestion to improve the system of distribution of Sujal Dairy?

If yes, please mention

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## QUESTIONNAIRE FOR DEALERS

This questionnaire is framed with a view to conduct a research work on “Distribution system of Sujal Dairy Product in Pokhara” for the partial fulfillment for the degree of masters of Business Studies (M.B.S). I need your kind co-operation for the same. You are requested to fill up the questionnaire provide to you with the best of your knowledge. While filling up the questionnaire you are kindly requested to fill up as you feel is right without being prejudiced of what is being expected out of you and also in the sequence given. Your kind co-operation in this regard will be highly appreciated.

Name: Rajendra Prasad Subedi Date:

Address: Bagar-1 Pokhara (Phedikhola-2 Syangja)

- 1) Are you an authorized dealer?
  - a) Yes
  - b) No
- 2) Since how many years you have been running this business?
  - a) Less than 1 year
  - b) 1-3 Years
  - c) 3-6 Years
  - d) More than 6 Years
- 3) What is your average daily sales quantity of dairy products?
  - a) Less than 1000 ltrs
  - b) 1000- 3000 ltrs.
  - c) 3000-6000 ltrs.
  - d) 6000-9000 ltrs.
- 4) Do you get every product from Sujal Dairy on time?
  - a) Yes
  - b) Sometime
  - c) No
  - d) None

- 5) What are the products of milk dairy do you have in your dealer?
- a) \_\_\_\_\_ b) \_\_\_\_\_  
 c) \_\_\_\_\_ d) \_\_\_\_\_  
 e) \_\_\_\_\_ f) \_\_\_\_\_
- 6) Do you have your own storage?
- a) Yes b) No
- 7) How far is the retailers market of Sujal Dairy from your dealers?
- a) Less than 2 km  
 b) 2-4 km  
 c) 4-6 km.  
 d) Above 6 km
- 8) How is the market of Sujal Dairy?
- a) Constant b) Fluctuated
- 9) What kind of products do you sell?
- a) Seasonal b) Off- Seasonal
- 10) What is the price of the following milk product in this season.
- a) Standard milk 1 ltr Rs. \_\_\_\_\_  
 b) Whole milk 1 ltr Rs. \_\_\_\_\_  
 c) Ghee 1 ltr Rs. \_\_\_\_\_  
 d) Ice Cream 1 ltr Rs. \_\_\_\_\_  
 e) Curd 1 ltr Rs. \_\_\_\_\_  
 f) Paneer 1 kg Rs. \_\_\_\_\_  
 g) Butter 1 kg Rs. \_\_\_\_\_  
 h) Nauni 1 kg Rs. \_\_\_\_\_
- 11) Are you fully satisfy the distribution system of Sujal Dairy?
- a) Satisfactory b) Moderate c) Unsatisfactory



## QUESTIONNAIRE FOR CONSUMERS

This questionnaire is framed with a view to conduct a research work on “Distribution system of Sujal Dairy Product in Pokhara” for the partial fulfillment for the degree of masters of Business Studies (M.B.S). I need your kind co-operation for the same. You are requested to fill up the questionnaire provide to you with the best of your knowledge. While filling up the questionnaire you are kindly requested to fill up as you feel is right without being prejudiced of what is being expected out of you and also in the sequence given. Your kind co-operation in this regard will be highly appreciated.

Name: Rajendra Prasad Subedi Date:

Address: Bagar-1 Pokhara (Phedikhola-2 Syangja)

- 1) Where do you buy the dairy products?
  - a) Dealers
  - b) Retailers
  - c) Wholesales
  - d) Distributors.
- 2) Since how long have you been consuming the Sujal Dairy product?
  - a) Less than 1 year
  - b) 1-3 years
  - c) 3-6 years
  - d) Above 6 years
- 3) Do you get every product from Sujal Dairy on time?
  - a) Yes
  - b) Sometime
  - c) No
  - d) None
- 4) What are the products of milk dairy do you consume?
  - a) Whole milk .....
  - b) Standard Milk .....
  - c) Ghee .....





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