

CHAPTER 1

INTRODUCTION

Marketing channel decisions are among the most important decisions facing managers. The channel decisions of a company directly affect many other marketing decisions. For example, the pricing of a product is dependent on whether mass merchandising or high quality specialty stores are employed. In many firms, distribution cost can be as high as 50% of operating costs (Joubert 1972).

Distribution channel decisions are long-term commitments to other firms. When a company sets up a distribution channel through contracts with independent dealers, it cannot easily replace this channel with company-owned branches if conditions change. Therefore, management must design its channels carefully, with a view towards the present and future selling environment.

Despite its importance, other activities like production and procurement of materials, legal and accounting often overshadow distribution (Horton and Egan 1969). Manufacturers are frequently reluctant to make needed changes in their dealer franchise networks. As Peter Drucker (1972) puts it, 'Distribution is

industry's Dark Continent. The Dark Continent is gradually being explored, but distribution is still a neglected area in the development of corporate strategy and in the marketing planning.' On the other hand, manufacturers having creative distribution system can gain a strong advantage over competitors.

1.1 The Importance of Cement and Steel Bars

The building and construction sector has been the engine of growth of the Malaysian economy. In 1995, this sector grew by 15.2%, contributed 6.6% to GDP growth and accounted for 4.4% of total GDP (Ministry of Finance, Economic Report 1995/96). Cement and steel bars are the two most important basic ingredients for the building and construction sector. Therefore, these two products would be the focus of this study.

The main manufacturers of cement with integrated mills are Associated Pan Malaya Cement (APMC), Kedah Cement Holdings, Cement Industries Malaysia (CIMA), Tasek Cement and Perak Hanjoong. Cement is a government controlled item. The government has enforced a ladder price structure for all locations throughout Malaysia. The government also imposed strict import-export restrictions on cement.

The major steel mills are Amalgamated Steel Mill (ASM), Malayawata, Southern Steel, Antara and Perwaja. Steel bars are also government controlled item. The government places these products under its control to protect both consumers and manufacturers. It ensures the prices are reasonable that would otherwise have an impact on cost of living. To manufacturers, this assures a reasonable return on investment as well as to protect local manufacturers from dumping by foreign manufacturers.

Cement and steel bars are required to fulfill strict product specifications before the products can be used by consumers. There is little, if any, difference between the product of one manufacturer and that of competing manufacturers. Most customers are willing to accept any brand of cement or steel bars. Therefore, promotion is not very necessary as the products are homogeneous.

With price, promotion and product quality relatively similar among manufacturers, only distribution channels are most likely to enable one firm to have a competitive advantage over another. In fact, making a product easily available can add value to the product (Murphy 1978). Therefore, accessibility and availability of the product through effective distribution channels are crucial to ensure that competitive edge.

One of the most important characteristics of the product that influences

distribution strategy is the attributes of the product itself. The most important attributes for cement and steel bars are weight, volume and value. When taken in combination, these attributes indicate the needs for warehousing, inventories, transportation, material handling and order processing.

The retail price of cement is government controlled at an average of RM 200 per metric ton. Steel bars are also government controlled at an average price of RM 1150 per metric ton.

Both products have high weight to bulk ratio. Transportation costs and storage charges tend to be low as compared with products with low weight to bulk ratio. Value to weight ratios of both products are low (although steel bars is relatively higher) compared to many other products. Low value-weight ratios have low storage cost but high movement cost as a percentage of sales prices. Thus, distribution managers must try to provide product availability at a level that it remains cost competitive by considering above attributes.

1.2 Objectives of the Study

The purpose of the study is to provide a better understanding of distribution channels on two most important materials for the building and construction

industry; that is, cement and steel bars.

The objectives of the study are

- (i) to examine the importance of distribution of cement and steel bars as compared to pricing, promotion and product quality,
- (ii) to determine the distribution channels used by manufacturers of these two products and the effect of government policy and influence (i.e., pricing and strict import-export control) on the distribution channels,
- (iii) to determine the reasons for the need of these channels and the functions of these channels,
- (iv) to determine the criteria for the selection of channel members, and
- (v) to determine the motivation approaches of channel members currently employed.

1.3 Significance of the Study

The findings of the study would highlight the importance of distribution channels as compared to other components of marketing mix, in the marketing of cement and steel bars. The importance of distribution channels is often neglected due to the current demand exceeding supply situation for cement and steel bars. However, there is an increasing awareness among manufacturers on the importance of distribution channels.

The findings of this study would also provide some guidelines for new manufacturers of cement and steel bars on the development of distribution channels, especially in view of the nearly completed huge steel mill project in Trengganu, and the two cement plants (one in Negeri Sembilan and one in Pahang) currently under construction.

1.4 Organisation of the Report

The rest of this report consists of four chapters. Chapter Two reviews the literature on the nature of distribution channels, distribution channels of industrial products, channel design decision and channel management decisions. Chapter Three explains the research methodology used in the collection and analysis of the

survey data. Chapter Four presents an analysis and discussion of the survey findings collected. Chapter Five summarises the research results and discusses the implications of the findings.