

# SUPPLY AND DISTRIBUTION CHANNELS: SELECTION AND MANAGEMENT

A CASE STUDY OF DANGE LEATHER PROCESSING INDUSTRY LIMITED, SOKOTO)

**By**

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DEDICATION


This project is dedicated to the entire family.

CERTIFICATION

This Project titled Supply and Distribution Channels: Selection and Management: A case study of Dange Leather Processing Industry Limited, Sokoto by Hamidu Sani Danko meets the regulations governing the award of Masters of Business Administration (MBA) of the Ahmadu Bello University, Zaria and approved for its contribution to knowledge the literary presentation.

  
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May Allah in his infinite mercy showers His abundant blessing on all of us, Amen.

## **ABSTRACT**

Careful selection and effective management of supply and distribution channels is essential for the flourishing of any company in its area of business. Where as efficient supply channel ensures regular flow of raw materials to be processed for maximum production (output) the distribution channels are the outlets through which a firm markets its goods. Thus effective selection and management of the two is synonymous to success. In this work; an attempt was made to assess the effectiveness in the selection and management of supply and distribution channels as practiced by Dange Leather Processing Industry Limited; Sokoto. In all the thirty-five (35) structured questionnaires were randomly administered to the Company's channels members and responses obtained were statistically analysed. The major findings of this research are that bad supply and poor distribution channels leads to high production costs and low sales; hence less profit.

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## CHAPTER ONE

### INTRODUCTION

- 1.1 Dange Leather Processing Industry Sokoto, manufactures finished and semi finished leather products. These products are known as Wet blue, pickle and Qust. The company is a leader in leather processing in Sokoto. Distribution of processed leather is one of the marketing functions.

Marketing embraces activities that satisfy economic needs and wants. The core concept of marketing is the transaction which is exchange of desired objects by two parties.

American Marketing Association defines marketing as "the performance of business activities that direct the flow of goods and services from producer to consumer or user". It involves activities related to the four elements of marketing mix product, price, place and promotion. The company uses these elements to pursue its marketing objectives in the target market.

This study deal with one aspect of the marketing mix, that is, distribution channel and this includes the supply channel. Traditionally the channel of distribution is the means whereby products are physically transferred through the system and through which the acquisition transaction take place. A vital component of an organisation's strategic thinking has to be a clearly defined in the supply and distribution channel policy it will pursue to achieve its cooperate goals.

Many changes take place in the supply and distribution environment which can have a radical effect upon the market position of a business. the effect of these changes can often negate an otherwise carefully developed strategy.

Most business organisations deal with suppliers and or buyers who are themselves part of a chain. Many organisations can not control the entire chain through ownership, they may therefore be faced with situation where they have a reduced influence on the end user.

Kotler defines distribution channel as firms and individuals that take title or assist in transferring title to the particular goods or services and they move from the producer to consumer. It includes the merchant and middlemen and agents.

Nwokoye view distribution channel as the combination of institutions through which a seller markets his product to the buyer. It includes middlemen like wholesalers, distributors, retailers and agents.

Firms also use the services of physical distribution organisations to assist them in stocking and moving goods so that they will be available at the right time and place. It also includes movement of raw materials from the source of supply to the beginning of production line.

Bruce defined physical distribution as adding value through the management of materials inventory, warehousing, transportation and customer services. It has the potential of enhancing production, marketing and profit performance of any company that produces a tangible product.

Dange Leather Processing Industry started production in June 1988 and unlike most of the companies in Sokoto, it is still in existence and producing. It sells its products locally and internationally by exporting them to Europe.

## 1.2 STATEMENT OF PROBLEM

The nature of a product if not properly considered can lead to the choice of a wrong distribution channels. In this case the channel will be ineffective and the objective not achieved.

The objectives being maximization of sales, minimization of costs etc. This could lead to a general poor performance of the organisation.

The selection of the channel of distribution by an organisation is one of the very important decisions an organisation should take. Poor transportation facilities will affect the effectiveness of the distribution system. Also there is the problem of control the manufacturer has over the operations of the middlemen.

The problem of channel decision is as important as deciding what product to manufacture and market. For a very long time, people have played down the important role of distribution and supply channels in marketing.

This, no doubt, stems out of the negligible attention given to them by some manufacturers and the complexity of the system as wells.

Questions form:

- How effecient can supply and distribution policy increase sales volume?
- How can better distribution and supply management be achieve?

### 1.3 OBJECTIVES OF THE STUDY

The objectives of the study are:

- a) To critically assess the effectiveness of distribution and supply channels used in marketing of processed leather.
- b) To examine the policy of distribution and supply, as it is related to suppliers, distributors, agents and retailers.
- c) To determine how well channel members are motivated in performing their functions.

### 1.3 RESEARCH HYPOTHESIS

- Hi. Physical distribution and supply management are effectively used in the company
- Hii. A good distribution and supply strategy will result in higher sales and lower production cost.

### 1.4 SCOPE AND LIMITATION OF THE STUDY

The scope of this study is distribution and supply management of Dange Leather Processing Industry Limited. This has to do with distribution methods and supply methods adopted by the company in getting its products to its customers and obtaining raw materials and chemicals used as inputs for the manufacturer of its products.

This company adopts the following areas of distribution management:

- a) Through Retailers
  - b) Through Agents
  - c) Through Company's Salesmen
- of supply, it adopts
- 1) Local Suppliers
  - 2) Direct Buying from manufacturers
  - 3) Importation.

Limitation of the Research are:

- 1) The company is sceptical in giving out some vital information, especially concerning its interantional channel members, for fear of being leaked to its competitors or wrong hands.
- 2) Extracting information from the line managers become difficult because of bureaucratic system of administration being used in the company.

- 3) Gathering and collection of primary data become difficult. the administration of the questionnaire created undue difficulty, since some of the supply centres (for hide and skin) are located at different villages which are very far apart.

#### 1.5 SIGNIFICANCE OF THE STUDY

Changes in the marketing environment come from all directions. the firm in its anxiety to focus its efforts upon the market place, will often neglect to observe the changes that may be occurring in the supply side. A strategy for supply is just as important as a market strategy.

The reasons for the presence of intermediaries in any market are:

- a) Time gaps: Consumers purchase items of more or less discrete intervals, while the majority of the firms produce on a continuous basis in order to reap production economics.
- b) Space gaps: Consumers are usually dispersed throughout the market, producers are located in a few areas and are often separated by distance from their customers.
- c) Quality gaps: Firms produce large quantities of a time, customers produce in a similar quantities.
- d) Variety gaps: The range of products manufactured by a firm is limited, customer have many needs which required a wide variety of products to satisfy them.
- e) Communication - Information gaps: Sources of goods are not always known by the consumers and producers too may not know who and where are the potential purchases of their products.

After developing a distribution strategy a marketer needs to identify and select appropriate distribution partners who support the overall distribution strategy. This is important because often the partners will assume a portion or the entire marketing responsibility for a set of markets. The distribution partner will also be involved in the physical movement (logistics) of products to the customers.

Selecting the most suitable channel participants and gaining access to the market are extremely important steps in achieving an integrated and responsive distribution channel. There should be proper motivation and control over the channel for sales to be satisfactory.

This research will assist the management of this firm in selecting and planning its distribution and supply channels and their management.

It will also highlight some marketing opportunities that have not been tapped by the company to enable it reap both internal and external economies of scale.

It will also serve as a reference for further research in the field of distribution and supply channel selection and management.

#### .6 DEFINITION OF TERMS

Some of the terms used in this research work are defined and explained below:

- a) **Retailer:** A merchant, or occasionally an agent, whose main business is selling directly to the ultimate consumer.
- b) **Ultimate consumer:** One who buys and/or uses goods or services to satisfy personal or household wants rather than for resale or for use in business, institutional, or industrial operations.

- c) Wholesaler: A business unit which buys and resells merchandise to retailers and other merchants and/or to industrial, institutional, and commercial users but which does not sell in significant amounts to ultimate consumers.
- d) Physical distribution: The management of the movement and handling of goods from the point of production to the point of consumption or use.
- e) Storage: The marketing function that involves holding goods between the time of their production and their final sale.
- f) Distribution logistics: Logistic is the physical flow of the products as they move through the channels.
- g) Supply channel: Route by which the company obtains all its inputs (materials) for production.
- h) Middlemen: A business concern that specializes in performing operations or rendering services directly involved in the purchase and/or sale of goods in the process of their flow from producer to consumer.

## CHAPTER TWO

### 2.0 LITERATURE REVIEW

#### 2.1 INTRODUCTION

This chapter gives theoretical background to the study. It provides theoretical information on concepts of distribution and supply channels this chapter contains:

- i. Nature of distribution and supply channels
- ii. Gaining access to channels
- iii. Selection of channels members
- iv. Channel levels
- v. Channel alignment
- vi. Channel function
- vii. Channel design objectives
- viii. Managing the channel system
- ix. Assessing marketing effectiveness
- x. Growth of vertical marketing systems
- xi. Evaluating the effectiveness of channel.

This chapter gives theoretical background to the study. It provides theoretical information on concepts of distribution and supply channels. There is a vast literature on channels selection.

#### 2.2 NATURE OF DISTRIBUTION AND SUPPLY CHANNELS

The supply and market environments have changed for many companies and in particular the nature of distribution channels open to these companies. In the past most companies did not see the channel of distribution as being a variable in their marketing mix, but now it is increasingly vital for an organisation to review constantly its strategy towards its channels. The goal of distribution channel according to Lewison (1979 p.63) is to have the right product in the right quantity in the right place and at the right time.

The distribution channel actions are aimed at bringing together producers and consumers.

The use of intermediaries to bring products or services to the market in order to fill some gaps between production and consumption.

Christopher (1986 p. 124 - 144) defines channel of distribution as the means whereby products are physically transferred through the system and through which the acquisition transaction takes place. Supply and distribution channels issue should be placed into strategic marketing context. There is need to find improved means of integrating the logistics connection between buyers and suppliers. Cost considerations have to be weighed in the decision to utilise intermediaries in the market. Benefits of using intermediaries should be balanced against the costs. Some benefits are better coverage, lower selling costs, wider product range, customer convenience, market knowledge and customer finance which among the costs are loss of margin, loss of marketing control, low priority given and inadequate customer service. Producers should be prepared to trade-off by way of margins and discounts to intermediaries so as to close production-consumption gaps.

Channel length concerns the extent to which intermediaries should be used or whether sales should be made directly to the consumer. This decision is governed by the extent to which a firm is prepared to trade-off control of the marketing channel to intermediaries. The decision on channel breadth is essentially one of the market coverage. At the extremes are "Intensive" distribution and "Selective" distribution. The decision to seek intensive or selective distribution will be influenced by product characteristics, buyer behaviour, the degree of channel control desired and the overall marketing strategy.

Nwokoye (1981 p. 131 - 161) views channels of distribution as the combination of institutions through which a seller markets his products to the ultimate buyer.

These institutions are wholesalers, retailers, jobbers, agents etc. He also pointed out that channel should be seen as a strategic managerial policy since it is one component of the marketing mix and also aids efficient co-ordination of the various institutions involved.

Buckling (1972 p.12) contends that distribution channel is a series of agencies which in the process of bridging the gaps operates upon three major and distinct flows. they are:

1. The title flow-The passage of ownership with the possible attendant risk.
2. The information flow-To and from the consumer.
3. Product flow-Handling, storing and moving.

This definition is broader in that the former concentrates on change of title, such a development has gone out of a distribution channel. Product flow brings the physical distribution aspect as being part of the channels.

Stanton, (1981 p.284) dispels this idea by saying that a trade channel does not include firms such as rail roads and banks which render marketing services, but play no major role in negotiating purchases and sales.

Kotler, (1980 p.449) took the same stand as he posited that distribution channel does not include suppliers, facilitators and marketing firms. He contended that channels should be limited to middlemen such as wholesalers, retailers, jobbers and brokers who are directly involved in the physical flows of materials and finished goods from point of origin to point of usage or consumption to meet the needs of customers. He added that there are fourteen tasks involved in physical distribution. These are sales forecasting, distribution, planning, inventory, management, packaging, warehousing, shipping out board transportation, in-bound transportation, order processing and customer service. These tasks are effective physical distribution goals and minimal withholding costs.

According to Frank (1978 p.73 - 77) without an effective distribution system a manufacturer or supplier cannot supply users or consumers especially if they are scattered in a specific area, for example a country or world. He said distribution is a major cost and portion of price. Adequate distribution means that a product is available in sufficient quantities in the right outlets to satisfy demand. The distribution cycle is the time it takes for a product to reach the final consumers which can be days, weeks, or months.

Stern and El-ansary (1988 p.3) view marketing channel as sets of interdependent organisations involved in the process of making a product or service available for user or consumption. According to them intermediaries, smoothen the flow of goods and services. this procedure is necessary in order to bridge the discrepancy between the assortment of goods and services generated by the producer and the varieties demanded by the consumer.

The discrepancy results from the fact that the manufacturer typically produces large quantity of a limited variety of goods as consumers usually desire only a limited quantity of a wide variety of goods.

Alderson (1985 p.22 -27) summarised this by stating "the goal of marketing is the matching of segments of supply and demand."

### 2.3 GAINING ACCESS TO CHANNELS

Gaining access to distribution channels may be a most formidable challenge in marketing. Jeannel et al (1981 p.350 - 376) posited that decisions on product designs, communication strategies, or pricing can be very complex and pose difficult choices of times. But once a company has made those choices, the implementation is more a question of diligence and follow through. Decisions taken by managers require the tacit agreement and co-operation of channel members.

The alternatives available to companies that, while offering an excellent product or service, encounter difficulties in convincing channel members to carry their products are:

(a) **The locked-up channel:**

A channel is considered locked-up when a newcomer cannot easily convince any channel member to participate despite the fact that both market and economic reasons would suggest otherwise. Retailers typically select products that they expect to sell easily and in volume and they can be expected to switch sources when better opportunities arise. Similarly, wholesalers and distributors compete for retail accounts or industrial users on economic terms.

They can expect to entice a prospective client to switch by buying from a new source if they can offer a better deal.

Competitors, may try to block the entry of a new company or members of a channel may not be willing to take risks by pioneering unknown products. The result is a lockup-up channel that severely limits access to markets. Marketers of consumer goods can develop the pull-type communication strategy to circumvent non-responsive channel by concentrating advertising directly on consumers.

(b) **Piggybacking:**

When a company does not find any channel partners with sufficient interest to pioneer new products, the idea of piggybacking may offer a way out of the situation. It is an arrangement with another company that sells to the same customer segment to take on the new products as if it were the manufacturer. The products retain the name of the manufacturer, and both partners normally sign a multi-year contract to provide for continuity. The new company is "piggybacking" its products on the "shoulders" of the established company's sales force. The manufacturer retains control over marketing strategy, particularly, pricing, positioning and advertising.

(c) Joint Venture:

Joint ventures is when two companies agreed jointly to form a new company. In terms of distribution, it is formed between a local firm with existing market access and a foreign firm that would like to market its products in a country where it has no existing market access.

2.4 SELECTION OF CHANNEL MEMBERS

After developing a distribution strategy, a marketer needs to identify and select appropriate distribution partners who support the overall distribution strategy.

Jeanel et al (1988 p.350 - 376) said selection of partners is an extremely important decision because the partner will assume a portion or the entire marketing responsibility for a set of markets. Also the distribution partner will usually be involved in the physical movement (logistics) of products to the consumers.

Factors that influence selection of partners are:

a) Cost:

Channel costs are initial maintenance and logistic costs.

High distribution costs usually result in higher prices which may hamper entry into a new market,. Companies often establish direct channels to reduce distribution cost.

b) Capital Requirement:

The capital cost of different channel alternatives can be very high and it includes costs for inventories, goods in transit, accounts receivable and inventories on consignment. The capital costs will be offset by the cash flow patterns from a channel often requires the maximum investment whereas use of distributors often reduces the investment required.

c) Product and Product Line:

Nature of product also affects channel selection.

If the product is perishable or has a short-life span then the manufacturer will be forced to use shorter channels to get the product to the consumers quicker. Non perishable goods can be distributed through a long channel. A broader product line is more desirable for channel members. A distributor or dealer is likely to stock a broad product line than a single item while limited products line must be sold through agents.

d) Control:

Each type of channel arrangement offers a different level of control by the manufacturer. With a direct sales force, a manufacturer can control price, promotion, the amount of effort and the type of retail used, longer channels, particularly with distributors who take title to goods often result in little or no control.

e) Coverage:

It refers to the geographic coverage that a manufacturer desires. Though it is usually easy to get coverage of major metropolitan areas, it can be difficult to gain adequate coverage of smaller cities or sparsely populated areas. To determine an agent, broker or distributor's coverage the following must be determined:

1. Location of sale office
2. Sales person's home base
3. Last year's sales by geographic location.

Location of sales offices will indicate where efforts are focused, salesmen have best penetration near their home and past sales will indicate the channel member's success in each geographic area.

## 2.5 CHANNEL LEVELS

Marketing channel is characterised by a number of different structural designs defined by the inclusion or exclusion of various intermediaries. Any middleman that carries out activities in bringing product and its title closer to the consumer

constitutes a channel level. Since the producer and consumer perform some work, they are part of every channel. Kotler (1968 p.409 - 420) used the number of intermediaries levels to designate the length of a channel and came up with the following different channels.

#### 2.5.1 ZERO LEVEL CHANNEL OR DIRECT MARKETING CHANNEL

Here the manufacturer sells directly to the final consumers. Direct channel brings the producer closer to the consumer as the firm becomes more sensitive to change in consumer attitudes and is in a better position to properly adjust its marketing mix. The management of this firm sells through this channel at times.

#### 2.5.2 ONE LEVEL CHANNEL

A one level channel contains one selling intermediary, he can be a retailer for consumer markets or a sales agents, broker for industrial markets. Dange Leather Processing Industry Limited uses this channel for its supplies and distribution especially in the international market.

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#### 2.5.3 TWO LEVEL CHANNEL

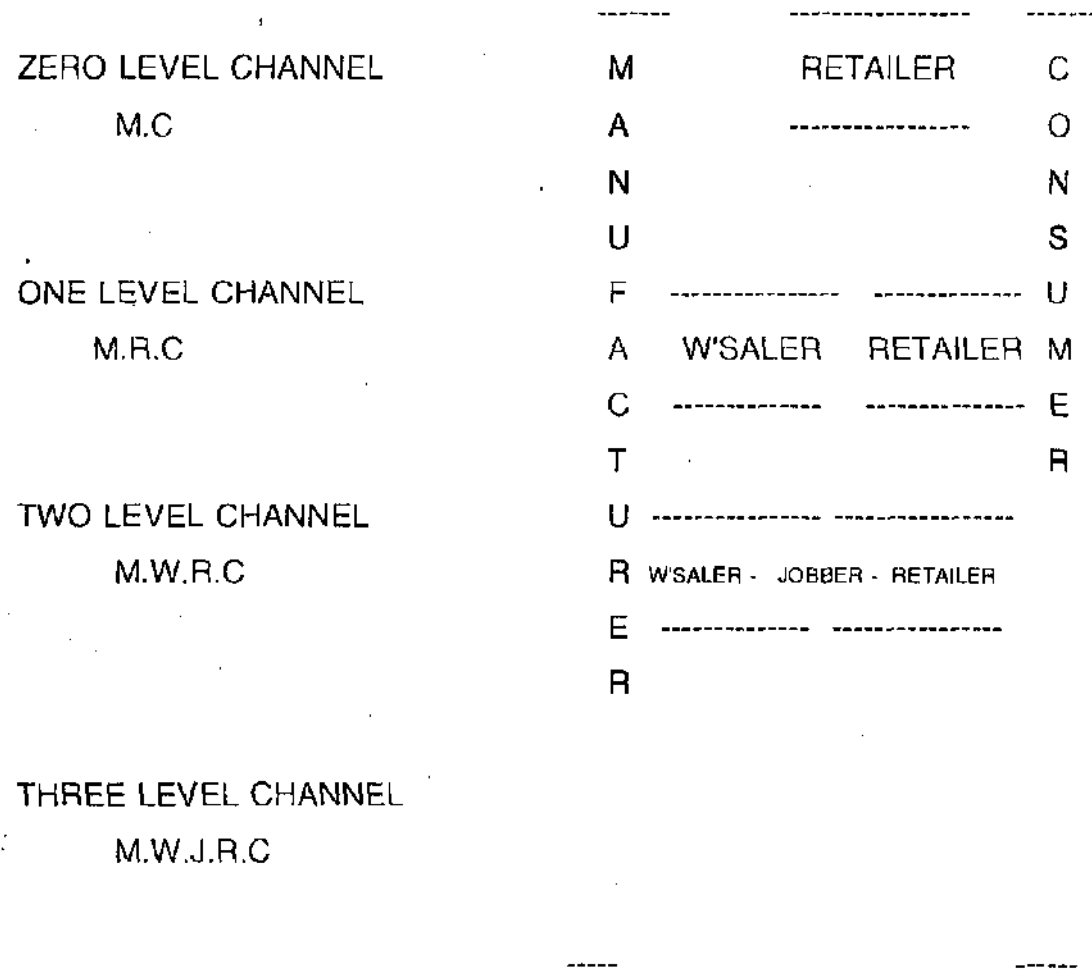
Here there are few intermediaries, they can be wholesales or retailers as in consumer markets or distributors or dealers as in industrial markets. The management of this firm uses this type in the distribution of its products.

#### 2.5.4 THREE LEVEL CHANNEL

This contains three intermediaries. The firm has never used this channel. A one level and two level channels are called indirect marketing channels. It enables the producer to deal with few outlets for very effective control.

Sales costs are reduced because few salesmen are required. Accountingly costs are low and credit risks are small. Lewson (1979 p.62 - 66) named Zero-level, one-level and two level channels as direct channel (producer to consumer) limited channel producer - retailer - consumer) and extended (producer - wholesaler -

Retailer consumer) respectively.



2.6 CHANNEL ALIGNMENT

One of the most difficult task of marketing is to get various channel members to co-ordinate their action so that a unified approach can be achieved. The longer the channel, the more difficult it becomes to maintain a co-ordinated and integrated approach. To achieve maximum efficiency in a channel of distribution, one participant emerges as the channel captain or dominating member.

Jeannel (1988 p. 350 - 376) stated that channel relationship should be structured to form an integrate unit, a vertical marketing system (VMS), by selecting any of the three major organisational forms, a corporate VMS under one single

ownership, an administered VMS under the dominating channel captain, and a contractual VMS through formal co-operation agreements by the independent channel members.

#### CHANNEL FUNCTION

Nickels (1980 p.113 - 117) states that marketing channel is a social system made up of people in different organisation who must co-operate to create marketing exchange. The greater the degree of co-operation and co-ordination in a channel the more successful the total system will be.

Nwokoye (1981) state that the following key functions must be perform in any distribution channel:

- i. Storage facilities space and materials handling equipment must be provided for keeping and handling goods from the time of production when they are moved to the ultimate buyers. This function bridges the time gap and create a time utility. Transportation must be provided to move goods physically from point of origin through intermediate locations to the final buyers.
- ii. Provision of information about the market:  
Collection and dissemination of marketing research information about potential and current customers, competitors, other actors and forces in the market enviroment.
- iii. Inventory ownership and risk bearing:  
This involves transfer of title to goods and the assumption of the risk of ownership such as *incidental loss, pilferage, obsolescence until the goods are sold to the ultimate users.*
- iv. Contractual functions:  
Ensuring contracts with current and potential buyer of the product sellers and buyers have to interact before transaction can take place.

- v. Financing: Funds must be provided to finance the purchase of stocks by the middlemen. The financing could be in the form of trade credit granted by the owner of stocks within the channel to his customers.

## 2.8 CHANNEL DESIGN OBJECTIVES

Buel (1986 p. 22 - 270) explained that channel design objectives derive from strategic market and financial goal. Objectives like sales volume increase, market share profitability and return on investment must be supported by the distribution channel. Market coverage and control objectives must be developed to guide channel design.

Market coverage objectives concern customer expectations and degree of production availability intensity. Typically three intensity choices are available:

- i. Intensive Distribution:

This involves placing a product in many outlets as possible. If the target market is primarily concerned with shopping convenience then intensive distribution is ideal.

- ii. Selective Distribution:

Selective distribution involves placing a product in a limited number of retail outlets. This objective is chosen by manufacturers who desire some retailer commitment to their products. Dange Leather Manufacturing Company adopts this strategy because its products are for target markets.

- iii. Exclusive distribution:

This market coverage objective limits availability of the product to a very limited number of outlets or a single outlet within each geographical market. Exclusive distribution may be used to promote the products image and to secure retailer commitment to the brand. Dange Leather works adopts this strategy in its foreign outlets. Limited number of agents are used for distribution of its products.

## 2.9 MANAGING THE CHANNEL SYSTEM

If there is no proper motivation and control over the channel, sales may remain unsatisfactory to the firm. Full co-operation of all channel members to ensure the flow of the firm's products through the channel can be achieved by:

- a) Motivating channel participants
- b) Controlling channel participants

Motivating Channel Participant;

Motivating channel participants continuously will ensure their giving their best in their job. Financial incentives in the form of higher - than - average gross margins can be a very powerful inducement, particularly for the management of independent distributors, wholesalers, or retailers. Goodwill of members can be gained by a firm if it extends help to members in areas such as inventory control collections, advertising etc. The motivation of channel partners and the amount of the effort developed to the firm's product lines is enhanced by a continuous flow of two-way information between the manufacturer and distributor.

Nwokoye (1981 p.131 - 161) said participants can also be assisted through sales training , aids, given in the form of manuals or workshops, advertisement and sales promotion programmes etc.

Mcvery (1960 p. 61 - 64) listed the following propositions to help understand middlemen, they often act as purchasing agents for their customers and only secondarily as a selling agent for suppliers, they are interested in selling any product which these customers desire to buy from them. Their selling efforts are directed primarily at obtaining orders for the assortment, rather than for individual items. Information that could be used in product development, pricing, packaging, or promotion planning is buried in non-standard records of middle-men and purposely kept secret from suppliers.

## ii. CONTROLLING CHANNEL PARTICIPANTS

There is no assurance that motivated middlemen efforts will be channelled in the right direction. The firm will therefore exert enough control over its channel members to help guarantee that they interpret and execute the company's marketing strategies. The firm will ensure that the local middlemen price the products according to the company's policies.

One way to exert influence over the channel members is to spell out the specific responsibilities of the middleman, including minimum annual sales in the distribution agreement. Attainment of sales goal should be required for renewal of the contract.

Also, the awarding of exclusive distribution rights can be used to increase control over middlemen.

## 2.10 ASSESSING MARKETING EFFECTIVENESS

There should be a means of monitoring the performance of intermediaries. Few organisations formally measure the cost-effectiveness of their marketing channels thereby missing opportunities for profit improvement. These opportunities may arise through possible reductions in channel costs and or through improvements in sales performance. Christopher (1986 p.129 - 144) suggested a number of criteria for channel performance evaluation. the important ones are:

### i. Sales Performance:

Sales achieved by a channel member on behalf of the supplier will be a crucial measure of his effectiveness. It is vital that the cost of those sales is also accounted for. Two channel members may account for the same sales in a given period, but the costs to the supplier of servicing them may differ substantially.

### ii. Inventory Maintenance:

Search is still on for distribution strategies which enables higher sales levels to be achieved on less inventory.

It means that more flexible and responsive replenishment systems are required or that the supplier is prepared to ship on consignment. In other words the intermediary only pays for the stock when sold.

iii. **Marketing Capability:**

Intermediaries should be able to take on certain marketing functions. Usually one of the key functions would be selling the supplier's products either through a sales force or some other means. In some cases this could be undertaken in whole or in part by the supplier, thus using the intermediary only as a stockholding distributor.

The marketing channel is also for communications and the willingness of the intermediary to promote actively the supplier's products is of considerable importance.

iv. **Motivation of Channel Members:**

Intermediaries at times have different objectives from suppliers and this often tends to lead to an adversarial relationship. This situation is changing with a greater recognition that co-operation can produce rewards for both parties.

v. **Competition in the Channel:**

This can be of two types within the channels, between intermediaries eg. one retailer against the other, and with an intermediary with similar products.

The first type is a threat if the supplier is pursuing a strategy of selective distribution, he will be more vulnerable to shifts in the share of the market controlled by competing intermediaries.

The second form of competition will occur if the intermediary also handles substitute products. A supplier will find that competition within an intermediary is an important factor to be considered.

v. **Growth Prospects:**

It is very important to understand the dynamics of marketing channels in developing long-term strategies for distribution. The success of a supplier at the end is connected to the success of its intermediaries.

2.11 **GROWTH OF VERTICAL MARKETING SYSTEMS**

Distribution channels do not stand still. As new wholesale and retail institutions emerge so also new channel systems. One of the most significant recent channel developments consists of vertical marketing systems, which emerged to change conventional marketing channels. A conventional marketing channel consists of producer, wholesaler and retailer. Each is a separate business entity seeking to maximise its own profits.

Mc Cammon (1970 p. 43 -44) posits that conventional channels are highly fragmented networks in which loosely aligned manufacturers, wholesalers and retailers bargain with each other at an arm's length, negotiated aggressively over terms of sales and otherwise behave autonomously.

In vertical marketing system (VMS) by contrast the producer, wholesaler and a retailer act as a unified system. They all co-operate and the system can be dominated by any of the members. Mc Cannon (1970 p.43 - 440) characterises VMS as professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum marketing impact. VMS controls channel behaviour and eliminates selfish objective pursuits by independent channel members. They achieve economies of scale through their size, bargaining power and elimination of duplicated services.

2.12 **EVALUATING THE EFFECTIVENESS OF CHANNEL**

It is a means of measuring the degree of success of a distribution system. Effective distribution network leads to market leadership and also assist in

diagonalising and solving distribution problems.

Kotler (1986 p. 409-420) pointed out that each distribution channel needs to be evaluated against economic control and adaptive criteria.

i. Economic Criteria:

Each channel of distribution will produce a different level of sales and cost. The first question is whether more sales will be achieved through the company's sales force or through sale agency.

Company sales team concentrated on the company's products, are better trained and aggressive because their future depends on the company's success. Consumers prefer to deal directly with them.

Agency's sales force can achieve the same fact or better depending on how much commission the line offers in relation to other lines carried.

ii. Control Criterion:

Control issues in the channel must be considered. Sales agency usage poses control problem. the agency may pursue other interests in conflict with supplier's. The agency sales force may not master the technical details concerning the company's product or handle its promotion materials effectively.

iii. Adaptive Criterion:

Each channel involves some duration of commitment and loss of flexibility. A manufacturer using a sales agency may offer a five year contract. During this period other means of selling such as direct mail may become more effective but the manufacturer is not free to drop the sales agency from the contractual agreement.

#### 2.13 REVIEW OF EMPERICAL STUDIES RELATED IN THE STUDY

The vital component of an organisation's strategic thinking has to be a clearly defined view on the supply and distribution channel policy it will pursue to achieve its corporate goals. Changes are taking place in the supply and distribution environment which can have a radical effect on the market position of a business. The effect of these changes can often negate an otherwise carefully developed marketing strategy.

The supply and distribution channel can be characterised as a number of intermediaries acting independently of each other and often with conflicting objectives and requirements. The relationship between buyers and suppliers must be one of mutual advantage. Improved means need to be found of integrating logistics connection between buyers and suppliers. Some of the benefits of using intermediaries includes better coverage, lower selling costs, wider product range, customer convenience, market knowledge and customer finance.

#### 2.14 APPRAISAL OF RELATED LITERATURE REVIEWED

An organisation must look in both directions when formulating its channel strategy, that is backwards to its suppliers and forwards to its customers. Problems in the supply environment can come from the lack of certainty over future availability of materials. In some cases, many industries are dependent to a greater extent on materials which are only available from a limited number of suppliers or geographical areas. Many basic materials will one day be exhausted and substitutes will need to be planned for companies have found that backward integration can smoothen logical planning. It can be achieved by means of ownership and developing the closest working relationship with suppliers.

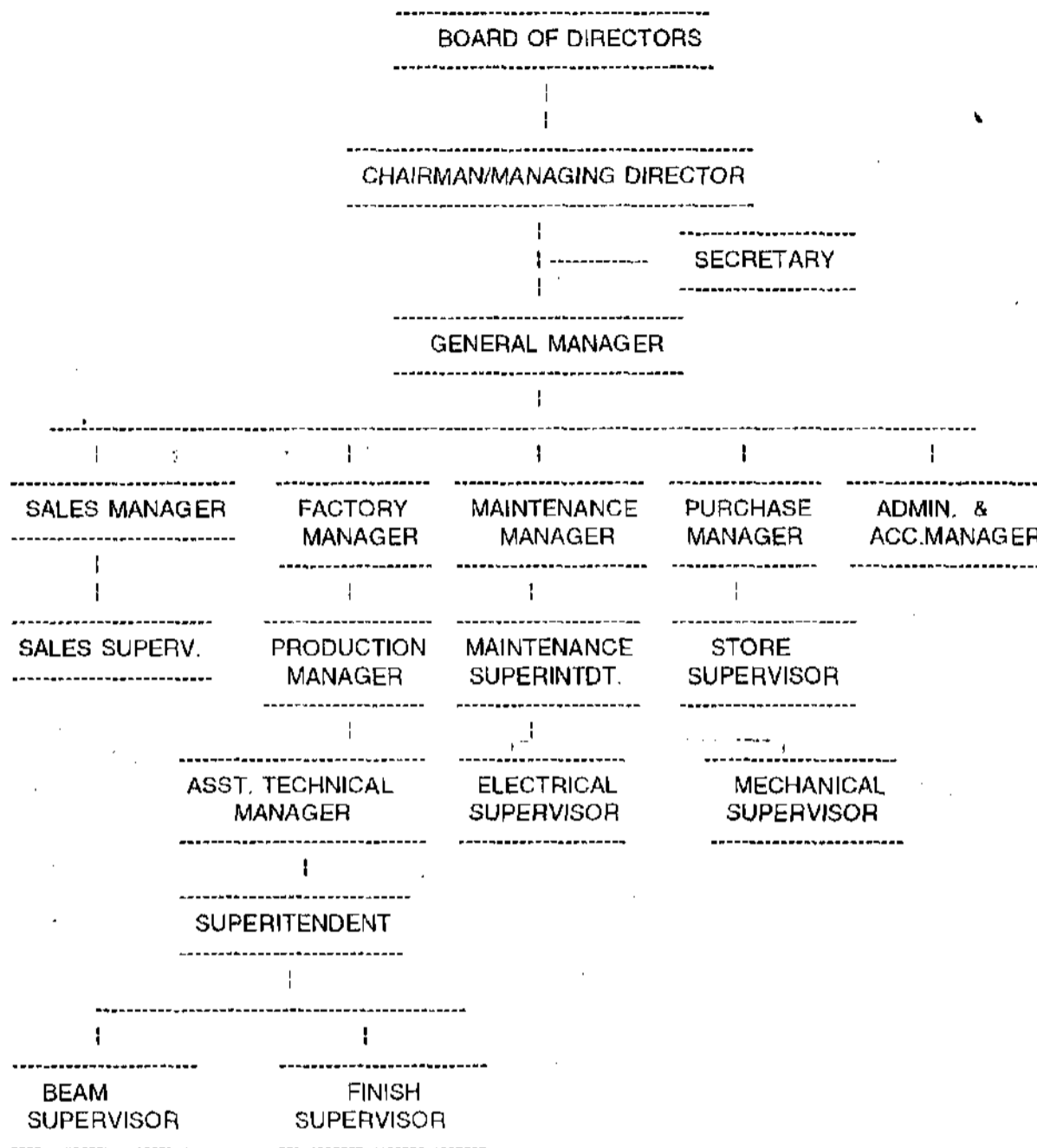
A good marketing channel strategy when developed brings dramatic changes to the company. Most companies now see the channel of distribution as a variable in their marketing mix and it has to be reviewed constantly.

Greater co-operation is necessary between supplier and distributor as the only ultimate way of achieving a mutually satisfactory relationship in the marketing channel. Channel strategy must be an integral part of a firm's marketing strategy. Overall marketing objectives need to be clearly defined, target markets delineated and brand positioning strategy developed. These will lead to taking rational decisions and customers requirements must be considered.

Logistic is also a very vital aspects of supply and distribution strategies formulation. It is an essential factor of economic activity. It is concern with the management of the physical flow which begins with sources of supply and ends at the point of consumption. It is concerned with plant and depot location, inventory levels, materials management and information systems as with transport. It is a bridge between demand creation and physical supply. The logistics concept recognises the interconnections and interrelationships between one multitude of functions involved in this movement from source to user and in so doing forces management to think in terms of managing the total system rather than just one part of it.

ORGANIZATION CHART

DANGE LEATHER PROCESSING INDUSTRY



## 2.15 SUMMARY

Physical distribution management is more than moving good from A - B but instead it is a vital link in the customer satisfaction process. Emphasis is now on customer services and the use of distribution as a means of gaining leverage in the market place.

the logistic orientation recognises that in order to improve the performance of the system as measured by the cost effective provision of customer service, all interrelated activities in moving materials and goods from source to user must be managed as a whole.

Supply and distribution channels decisions are very important on the marketing success of the business. Benefits abound if these channel are vigorously managed. It's management is crucial to longer-term profitability. More important are the implications for the management of relationships with suppliers and distributors. A channel culture based upon co-operation should be established for improved marketing channel effectiveness.

## 2.16 HISTORICAL BACKGROUND OF DANGE LEATHER PROCESSING INDUSTRIES LIMITED, SOKOTO

Dange Leather Industries Limited is located along Kalambaina Road of the outskirts of Sokoto town. the company was established in 1986 but actual production started in January 1986.

The company is a sole proprietorship with the founder's immediate family members as members of Board of Directors. The company has an installed capacity of processing 5,000 raw skin and hides per day. The products of the company are

semi-finished and tanished are called pickle and wet Blue, while the finished product is called Crust. All the products are of high quality and international standard. The company used local and international outlets for its products.

The company has five main departments, Sales, Production, Maintenance, Purchasing and Administration and Accounts Departments.

The production department is further divided into Beam and finished departments to take care of semi-finished and finished products. The company has a staff strength of 320 staffs and runs three shifts when working at full capacity.

The company has been operating without a stop since it started production. It has survived where others have failed especially in Sokoto town.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 TYPE OF RESEARCH**

Research implies the application of certain techniques of learning in particular areas requiring exploration or exposition. Basic research is a fact finding research that explores a situation of study or phenomenon. The type of research used in this study is the survey research. It focuses on populations or the universe. Data are collected from the population for intensive study and analysis. A sample is selected from a subset of the population since all the subjects could be studied.

Rules of random sampling were adhered to in order to generalize findings for the whole population. The following are methods of survey research used:

- a) Questionnaires
- b) Observation
- c) Personal interview.

A. Questionnaires: This contained carefully worked questions and instructions for the

respondent to answer.

- B. Observation: The researcher gathered his data by watching and recording information. This include monitoring behavioural and non-behavioural activities and condition of sample subjects.
- C. Personal interview: Here questions were asked by the researcher from staff of the company. Useful information were then gathered from their responses.

### 3.2 INSTRUMENTATION

This study made use of primary and secondary sources of information. the primary souces was through the use of questionnaire, personal interview and observations.

The secondary sources was the data collected from the firms records.

#### a. Primary Sources:

Two sets of questionnaires were designed. One for the management and the other for the channel members. the management questionnaires aimed at obtaining their opinions concerning channel effectiveness and necessary channel modification. Channel members questionnaires was designed to find out from the channel members on how to motivate them in order to enhance their performance. Observations and personal interviews were also used.

#### b. Secondary Source:

Secondary source data for this study were obtained from the records of Dange Leather Processing Industry Limiyed, Sokoto. The data were obtained to show the trend of channel performance such as Volume of Sales and Supplies.

### 3.3 PROCEDURE FOR DATA COLLECTION

This study is on distribution and supply channel, selection and management with particular reference to Dange Leather Processing Industry Limited.

A sample frame was initially established before selecting a sample for this study. Since channel members of this company are scattered throughout the state and beyond, a sample frame was adopted to avoid bias because random sampling ensures that each member of the population or universe has an equal chance of being selected (Osula 1993 p. 104).

A total of thirty five (35) channel members were randomly selected for administration of channel members questionnaire from all their registered channel members. Questionnaires were also administered on staff of the company to determine their effectiveness.

### 3.4 DATA ANALYSIS TECHNIQUE

The data collected are analysed using the following methods:

- a. Tables
- b. Percentages.

Variables under consideration in this study are independent and dependent variables. The independent variable is the distribution channel while the dependent variable is the supply channel.

Sample tabulation and percentage was used to analyse the various data collected from the survey research. This method of analysis was found suitable as most of the information could be expressed in figures.

## CHAPTER FOUR

### 4.0 RESULT

4.1 This chapter analyses the data gathered from respondents. Based on this research study information was obtained from the company's management and non-management staff, supplier, distributors and customers that are based in Sokoto, Kebbi and Zamfara States. the management of the company due to what they call "strategic reasons" refused to divulge information concerning its international agents, suppliers and customers. It is therefore not possible to gather data about them.

Altogether thirty five local respondents were sampled. This is made up of 5 company's staff, 10 suppliers, 10 distributors/agents and 10 customers.

The percentage and tabular system were used for the analysis which is presented as follows:

### 4.2 DATA PRESENTATION AND ANALYSIS

Question 1

Who are the company's customers?

Table 4.2.1 Response of company's customers and suppliers.

Customer/Supplier To the Company	No	%
Any body	15	43
Selected Individual	20	57
Total	35	100%

Source: Questionnaire (Primary data)

From the table 4.2.7, 35 respondents were contacted, 15 of these representing 43% affirmed that the company's customers/suppliers can be anybody while 37% representing 20 respondent agreed that they are selected individuals.

Question 2

Where does the company sell its product?

Table 4.2.2 response to where produce is sold.

Channel of Sale	No	%
Locally	-	-
Internationally	-	-
All the Above	35	100%
Total	35	100%

Sources: Questionnaire.

All respondents from table 4.2.2 totalling 35 agreed that the company's products are sold locally and internationally. this represents 100% all the respondents.

Question 3:

How do you sell your products to the user?

Table 4.2.3 response to how product is sold:

Sales Channel	No	%
Retailers	3	9
Directly	5	14
Through Company's Salesmen	12	34
Through Distributors/Agents	15	43
Total	35	100%

Source: Questionnaire.

From the 4.2.3, 15 respondents said they sell products through agents while 12 respondents sell through the company's salesmen.

Question 4:

What means of transportation do you use for your products?

Table 4.2.4 Response to mode of transportation.

Mode of Transportation	No	%
Road	10	29
Rail	-	-
Air	5	14
Sea	20	57
Total	35	100%

From the table 4.2.4, 10 respondents or 29% agreed that the company uses road transportation for transporting its products, air transportation 5 respondents or 14%, sea transportation 20 respondents or 57% while no respondent affirm rail transportation.

Question 5:

Who pays for transportation?

Table 4.2.5 response to the transportation payments.

Transportation Payment	No	%
Customer	5	14
Agents/Distributor	-	-
Company	30	86
Total	35	100%

Source: Primary Data.

Five respondents or 14% of table 4.2.5 agree that customers pay for transportation especially for products purchased directly from the company while thirty respondents or 86% affirmed that the company pays for transportation for products that are meant for agents locally or internationally.

Question 6:

Does the Company have enough storage facilities?

Responses to storage facilities.

Storage Facilities	No	%
Yes	10	29
No	25	71
Total	35	100%

Source: Questionnaire.

From table 4.2.6, 10 respondents agreed that the company has storage facilities while 25 respondents or 71% affirmed that the company does not have enough storage facilities.

Question 7.

Does the company's products get to customers on time?

Table 4.2.7.

Response to prompt production.

Prompt Availability of Products	No	%
Yes	-	-
No	35	100%
Total	35	100%

Source: Primary data.

From Table 4.2.7 all respondents 35 or 100% agreed that the products do not get to customers on time.

Question 8.

How often do customer buy products and suppliers make their supplies?

Table 4.2.8

Response to degree of purchase and supplies.

Degree of Purchase/Supplies	No	%
Daily	5	14
Weekly	10	29
Monthly	20	57
Total	35	100%

From the table 4.2.8, 5 respondents or 14% agreed that purchases and supplies are made daily while 10 or 29% said weekly and 20 respondents or 57% said monthly.

Question 9.

If you are a supplier to the company, what is the modes of payment for your supplies?

Table 4.2.9

Response to payment for supplies.

Repayment for Supplies	No	%
Upfront	15	43
After Delivery	20	57
Total	35	100%

Source: Primary data.

From table 4.2.9 thirty-five (35) respondents answered this question. 15 of them or 43% agreed that the company makes upfront payment for supplied goods while 20 respondents or 57% agreed that payment is done after delivery.

Question 10:

As a distributor/agent/customer what can you say about the prices of the company's products?

Table 4.2.10

Response to price of products.

Prices	No	%
Low	10	29
Moderate	5	14
High	20	57
Total	35	100%

Source: Primary Data.

From the table 4.2.10, 10 respondents or 29% said the prices are low while 5 respondents or 14% agreed that the prices are moderate while 20 respondents or 57% agreed that prices are high.

Question 11:

How do you source for your raw materials ?

Table 4.2.11

Response to source of raw materials.

Source of Raw Materials	No	%
Locally	-	-
Outside the State	-	-
Other Countries	35	100%
Total	35	100%

Source: primary Data.

From the table 4.2.11, this question was answered by 35 respondents and they all affirmed that the raw materials being used by the company are got locally, outside the state and from overseas.

Question 12.

How adequate is your manpower requirement for distribution and supplies?

Table 4.2.12

Response to manpower adequacy.

Manpower	No	%
Adequate	10	29
Not Adequate	25	71
Total	35	100%

Source: Primary Data.

From table 4.2.12, 10 respondents or 29% agreed that the company's manpower is adequate while 25 respondents or 71% agreed that the manpower requirement of the company is not adequate for distribution and supplies.

Question 13.

How is your distribution and supply system?

Table 4.2.13

Response to distribution and supply system.

Distribution and Supply System	No	%
Effective	5	14
Not Effective	30	86
Total	35	100%

from the table 4.2.13, the supply and distribution systems in the company is not effective. This is clearly shown in table 4.2.13 as 30 of the respondents or 86% of them share the same view while only 5 of them or 14% said they are effective.

Question 14

What is your turn-over?

Table 4.2.14  
Response to level of turn over.

Turn Over	No	%
Low	20	57
Moderate	10	29
High	5	14
Total	35	100%

Source: Primary Data.

From the table 4.2.14, 20 respondents are of the view that the turn over of the company is low while 10 or 29% believe it is moderate and 5 respondents or 14% believe it is high.

#### 4.3 PROOF OF HYPOTHESIS

##### Hypothesis 1

Physical distribution and supply management is or not effectively used in the company.

For prove, Tables 4.2.7 and 4.2.13 with 100% and 86% show that the products are not delivered in time and the distribution system is not effective.

##### Hypothesis II

A good distribution and supply strategies will result into high sales and lower production costs.

From the data analysed from responses to questions in the questionnaire, table 4.2.10, and 4.3.14 clearly show that defective distribution and supply strategies will result into high costs of products and very low turn-over for the company.

## CHAPTER FIVE

### 5.1 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study examined the supply and distribution channels selection and management using Dange Leather Processing Industry, Sokoto as a case study. The research is divided into five chapter which are summarised as follows:

Chapter One deals with introduction of the topic under review and the statement of the problem. The research objectives is also stated in this chapter which is to identify and introduce alternative solutions to the supply and distribution policies of the company.

The importance of thiw study, scope and limitations to the study are also covered here. All hypothesis, research methodology, defination of terms are highlighted in this chapter. Historical background of the company and its organisational chart shown in chapter two.

In chapter two, literature review treated past works on the research topic. Various definations given by various scholars were considered and conclusions drawn from them. This has assisted in giving suggestions for achieving efficient, effective and management of best supply and distributionchannel in the company.

Chapter three highlights the type of research used for this study. It contains the procedure used for data collection and the techniques used for data analysis.

The various data collected in the course of this research are presented and analysed in chapter four. The hypothesis for investigation are then proved based on the analysis of the data gathered.

The fifth chapter of this research work contains the summary, findings and recommendations.

### 5.1 CONCLUSION

On the basis of findings of this research work the following conclusion are drawn:

- a) The supply channel members are not motivated to give their best.
- b) There is lack of logistics in terms of vehicles and spares.
- c) The company lack professional salesmen
- d) The company concentrates more in satisfying its foreign market than the domestic market.
- e) Staffs are not motivated for optimum performance.
- f) Insufficient availability of the products
- g) The distribution management is not effective enough.
  
- h) A well managed supply and distribution channels of a company ensures high profit and lower productions cost for the company. Distribution plays a very vital role in any sector of the economy. Attainment of effecient distribution system needs not be emphasised as regards leather products which are useful in shoe, furniture and motor industries.

A well managed supply and distribution channels, apart from financial benefits, enhances good relationship between the company and customers. Business activities are increased for development and profit making. A company has the responsibility of making its products available at the right time, place, and at the affordable prices. Success of a company depends on how it can satisfy the needs and wants of its customers through a very effective and effecient distribution system.

### 5.3 RECOMMENDATIONS

On the basis of findings and conclusions of this study, the following recommendations are hereby made:

1. The supply channel members especially agents for hide and skin, apart from being given part payment up front should be given money for transportation since they have to travel to different villages that are very far apart to obtain them.
2. The company should improve its manpower requirements by employing competent and experience professional salesmen in order to build a virle salesforce.
3. Staff at the company should be motivated by providing training when necessary, staff bus for transportation to and fro work and all other incentives that inspire a worker to give his best.
4. Products should be available to satisfy home market by increased production.
5. The company should encourage research into obtaining local alternatives to imported chemicals that it is using for its production. the long term benefits of this exercise cannot be over-emphasised though it may be expensive initially.
6. The company should discontinue the use of agents to get products to customers locally since this causes delay in the distribution system. The use of efficient salesmen eliminates bottlenecks caused by these middlemen.

7. The above areas if looked into for implementation will improve the supply and distribution system and make it more efficient and effective than it is now.

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Dear Sir/Madam,

I am a student in Business Administration Department. I am carrying out a research in supply and distribution channels selection and management. A case study of Dange Leather Processing Industries Limited, Sokoto.

I will be very grateful if you will assist me in answering the following questions by ticking those applicable. Your information will be treated in strictest confidence.

Questionnaire for Manufacturer.

1. Who are your Customers or Suppliers?  
a. Anybody   b. Selected individuals
2. Where do you sell your product?  
a. Locally   b. Internationally   c. All the above
3. How do you sell your product to the user?  
a. Through retailer   b. Directly   c. Through Company's Salesmen   d. Through wholesalers/Distributors/Agents
4. What is your distribution and supply policies to satisfy the consumer?  
.....
5. What are the name of your products?  
.....
6. What means of transportation do you use for your products?  
a. Rail   b. Road   c. Air   d. Sea
7. Who pays for the transportation?  
a. Customer   b. Agent/Distributor
8. Do your products get to customers on time?  
a. Yes   b. No
9. Do you have storage facilities?  
a. Yes   b. No
10. How often do customers buy your products and suppliers make their supplies?  
a. Daily   b. Weekly   c. Monthly

11. What is your turn over?
  - a. Low ; ;
  - b. Moderate ; ;
  - c. High ; ;
12. How do you source for your raw materials?
  - a. Locally ; ;
  - b. Outside the state ; ;
  - c. Other countries ; ;
  - d. All the above ; ;
13. How is your manpower requirement for distribution and supplies?
  - a. Adequate ; ;
  - b. Not adequate ; ;
14. How is your distribution and supply system?
  - a. Effective ; ;
  - b. Not effective ; ;

Dear Sir/Madam,

I am a post graduate student in Business Administration Department. I am carrying out a research studies in "Supply and Distribution Chennels selection and managemen" A case study of Dange Leather Processing Industries Limited, Sokoto.

I would be very grateful if you will assist me in answering the following questions by ticking those applicable. Your information will be treated in strictest confidence.

#### QUESTIONNAIRES FOR CONSUMERS/SUPPLIERS/AGENTS

1. What is your relationship with this company?  
a. Cutsomer ; ; b. Supplier ; ; c. Distributor ; ;
2. What activity are you involved in?  
a. Purchase of products ; ; b. Supply of hides and skins ; ;  
c. Supply of Chemicals ; ; d. Wholesale purchase ; ;
3. If you are a user of the products, how often do you buy the products?  
a. Monthly ; ; b. Weekly ; ; c. Daily ; ;
4. Where do you buy from?  
a. Direct from the company ; ; b. Through Agent/Distributor ; ;  
c. Through Deport ; ;
5. If you are a supplier to the company how often do you make your supplies?  
a. Monthly ; ; b. Weekly ; ; c. Daily ; ;
6. What is the mode of payment for your supplies?  
a. Upfront ; ; b. After Delivery ; ;
7. Do you normally recieve prompt payment for supplies?  
a. Yes ; ; b. No ; ;
8. As a consumer/Agent/Distributor what can you say about the price of product?  
a. Low ; ; b. Moderate ; ; c. High ; ;

9. What can you say about the distribution of the product?  
a. Very Effective | | b. Effective | | c. Not Effective | |
10. As a supplier what can you say about the supply policy of the company?  
a. Very Effective | | b. Effective | | c. Not Effective | |