

AN APPRAISAL OF INDEPENDENT
MARKETERS IN THE DISTRIBUTION
OF PETROLEUM PRODUCTS IN
KADUNA AREA

BY

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;

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DECLARATION

I hereby affirm that this dissertation is the hand work of the research work carried out by me. It has not been previously submitted or accepted for any academic work. All the sources of information has been acknowledged by way of reference.



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DATE: APRIL, 1999

CERTIFICATION

This project entitle "AN APPRAISAL OF INDEPENDENT MARKETERS IN THE DISTRIBUTION OF PETROLEUM PRODUCTS IN KADUNA AREA" by "ISAH BUHARI AMINU" meets the regulation governing the award of MBA of A.B.U. Zaria and approved for its contribution to knowledge and literacy presentation.

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DEDICATION

To my mother, Hajiya Nana Isah Buhari, My father, Alh Isah Buhari, My cousins Yaya Ummu and Yaya Tumba and also Nafisah Yahaya for being very important people in my life.

Isah Buhari

NITT, Zaria

April 1999

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ABSTRACT

Since the discovery of oil in Nigeria by Shell D'Arc in 1956, the major oil companies and the independent marketers have been very important in the distribution of petroleum products.

The activities of these independent marketers as regards to the problems of their financial and physical incapability as well as their impatriotic behaviors is what this project investigates. The focus is on the distribution of PMS only in Kaduna area by the independent marketers.

In the course of the study many independent marketers as well as NNPC staff were interriened.

It was found out that the independent marketers receive inadequate supplies of PMS from NNPC and also they lack broad capital base to acquire larger and better trucks to transport the PMS to neighboring countries for higher profits. All these contribute to the shortage of PMS in filling stations of the marketers.

Finally, the independent marketers play important role in the distribution of petroleum products in Nigeria, though alot has been done in the area of distribution, financing and patriotism on the part of theses independent marketers to achieve their goal of marketing PMS available in all the nooks and corners of the country.

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1.0 Introduction

CHAPTER ONE

1.2 Background

The discovery of oil petroleum by shell Arc, the fore runner of the present Shell Petroleum Development Company in 1956, in Oloibiri in the Niger Delta areas of Nigeria, was needed catalyst that change the pattern of the nations economy from its hitherto agricultural based to an oil dependent one.

In 1977, the Federal Government established the Nigerian National oil cooperation (NNOC) as an integrated oil company to explore, produce and transport, process refineries, distribute and market crude petroleum and its refined derivatives. National Petroleum Cooperation with all the functions of the former cooperate entity transfered to it.

The corporation established refineries in Warri, PortHarcourt and Kaduna to refine, and store petroleum products to Nigerian consumers and export the excess to neighboring countries of West Africa.

NNPC, realising that distribution of petroleum products calls for huge capital investment outlay which only Government and corporate organizations can undertake, built products distribution depots connected with network of pipelines in strategic locations who were representatives of multi-national oil companies already involved in exploration.

These major oil companies, i.e Shell Petroleum Development, Mobil, Gulf, Agip, Safrap (now ELF) Tennaco and Amoseas (now Texaco) and Total, used their monopoly of oil exploration technology and marketing strategy to establish an effective products

distribution channels throughout the country.

More ever, the indengenization decree of 1972, promulgated to encourage indegenization participation in strategic oil and other business brought the independent oil marketers into the business of lifting and distributing petroleum products.

Unfornately however, this singular act patriotism on the part of government had created an opportunity for marketers to divert products, hoard and create artificial scarcity to raise price, adulterate products to make money and smuggle products out to neighboring countries to sell at ten times cost of a tanker back home.

These problems have been further compounded by the in ability of the Federal Government to adequately fund NNPC to enable it carry out periodic maintenance intervention despite the huge earnings from crude oil sales accounting for about 90% of the nations foreign exchange earnings.

NNPC as an organization with eleven subsidiary companies is allocated N1.70 out of N11 per litre of refined products to run its services, which is not even enough to off-set the cost of producing a litre of petrol, which Petroleum Trust Fund (PTF) is allocated a staggering amount of money N5.30, to run its own services, a case of killing the goose that lays the golden eggs.

By starving the corporation of needed funds for its services, the four refineries in the country have been unable to carry out their turn around main tenace (TAM) of their plants since the last six years now, resulting in breakdown of vital components or whole plants shutdowns especially Warri and PortHarcourt importation of refined petroleum products into the country, in a nation rated as the sixth largest exporter of

crude oil petroleum in the world.

1.2 STATEMENT OF THE PROBLEM

Distribution of petroleum products in Kaduna as in other parts of the country is a function undertaken by major and independent marketers. There is a claim that the problem facing effective distribution of petroleum products stems from the lack of capacity to acquire, transport and distribute these products as well as unpatriotic behavior of some these marketers through the diversion of the increase as fuel crisis appears to have come to stay.

1.3 HYPOTHESIS

The hypothesis of this project is; the lack of broad financial. This problem of financial and physical incapacity as well as the unpatriotic behaviors on the part of the marketers is this project investigates base, diversion of product by the marketers and inadequate supply from NNPC leads to the unavailability of fuel in the filling stations.

1.4 AIMS AND OBJECTIVES

The objectives of this are:

- (a) To examine the nature, structure and composition of independent marketers.
- (b) To know their relationships with major oil marketers and NNPC
- (c) To asses their performance in satisfying customers requirements and also their contribution to the economy.
- (d) To determine their operational constraint and proper solutions on how to improve the system.

1.50 JUSTIFICATION OF THE STUDY

Independent marketers constitute an important link in petroleum products distribution channel, structure and management in not only Kaduna area but the country as a whole. Without them there would appear to be a free - for all struggle among transporters to move petroleum products from the point of production to the point of consumption. This unbridled competition would create serious bottle - neck in terms of fulfilling supply orders at the refinery, provision of parking lots and logistical system design.

The above notwithstanding, current researches do not seem to have studied the actual problems that independent - marketers encounter in the distribution of petroleum products. This study fills their gap.

1.6.0 SCOPE AND LIMITATIONS

The focus of the study is on the distribution of premium motor spirit (PMS) only by independent marketers. The area of coverage is the Kaduna marketing zone which comprises of Kaduna State, Jos, Gusau and Kano. The zone has 81 regular independent marketers. The emphasis in the study is on distribution logistics.

1.6.1 LIMITATIONS OF THE STUDY

The distribution of petroleum products is a complex business due to limitations of time and financial resources, surveys are limited to premium motor spirit (PMS) only.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.10 INTRODUCTION

Literature review enables one to understand the views of other researchers either in the same or related fields. In this way research gaps can be filled by establishing the frame work for expanding the four tiers of knowledge in the field of research. The following would be discussed in this literature review;

- (a) Marketing concept.
- (b) Marketing mix.
- (c) systematic distribution.
- (d) Modes of distribution.
- (e) Marketing channel structure and mgt.
- (f) Owing, leasing or contract hiring.
- (g) Communication.

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2.2.0 MARKETING CONCEPT

Marketing is the key word in this topic. In recent years, there has been a remarkable growth of interest, both public and private, in marketing of goods and services but not much in petroleum products. It has become increasingly obvious to consumers, academicians and practitioners that most of indigenous independent oil marketers lack a marketing culture. In consequence, it too often fails to respond effectively to consumer demand and the changing commercial environment. Thus, calls for independent oil marketing companies to "think marketing" in planning and operation

have come from numerous conference papers, consumer groups and indeed professional bodies. It is clear that in an increasingly competitive market, few independent oil marketing companies can afford to manage their businesses from a purely operational and finance perspective. Running a successful modern oil marketing company means attracting potential costumers and retaining existing ones. Successful oil marketing operation therefore requires a marketing approach to planning and managing the business. Thus the aim of this study.

Though most people know little about marketing, we are all greatly influenced by it. Many see a marketing a synonymous with making money, advertising or selling but it is more of these. Marketing is the management process responsible for identifying, anticipating and satisfying consumer requirements profitably. It means identifying a demand, providing a scheme or service to meet that demand, advertising it or selling it. Marketing therefore means running a business to meet the costumers needs, ie becoming costumer oriented. Thus successful marketing involves organising the structure and behavior of a transport business and the consumer. Marketing is therefore the process of determining consumer demand for a product or service, motivating its sale and distribution at a profit (Brech, 1953). Marketing is not only much broader than selling, it encompasses the entire business. It is the whole business seen from the customer's point of view. Concern and responsibility for marketing most therefore permcate all areas of the enterprises. (Drucker, 1954).

Marketing is the distinguishing unique function of the business (Drucker 1954). Marketing is the performance of business activities that direct the flow of goods and

services from producer to consumer or user. Marketing is the creation of time, place, and possession of utilities. Marketing moves goods from place to place, store them and effects changes in ownership by buying and selling them. Marketing consists of the activities of buying, selling, transporting and storing goods. Marketing includes the flow of goods and services between producers and consumers (Converse, Hnegy and mitchell, 1965).

Marketing is the set of human activities directed at facilitating and consummating exchanges (Kotler 1972). Marketing is the process whereby society, supply its consumption needs, evolved distributive systems composed of participants, interacting under constraints technical (economic) and ethical (social) create the transactions or flows which resolve market separations and results in exchange and consumption (Bartels, 1968). Marketing is therefore the delivery of a standard of living (Baker, 1979) and involves the establishment of contract (Chevington, 1920).

As it can be seen, marketing is a wide area of study, and has no single definition, the proliferation of definitions was the subject of an article by Croiser (1975) who revianed over fifty definitions and which he classified into three major groups.

- (a) Definitions which conceive of marketing as a process "erected via the marketing channel connecting the producing company with its market ". For example, the primary management function which organises and directs the aggregate of business activities valued in connecting costumer purchasing power into effective demand for a specific product or service and moving the product or service to the final customer or user, so as to achieve company set profit or other objectives

(Fodger, 1971).

- (b) Definitions which see marketing as a concept or philosophy of business "the idea that marketing is a social exchange process involving willing consumers and producers". For example, selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivery and finally concerning it. (Levitt, 1960).
- (c) Definitions which emphasize marketing as an orientation present to some degree in both consumers and producers, the phenomenon which makes the concept and the process possible".

The adaptation of a marketing approach in business involves therefore the integration of all the functions and activities of the producer into meeting consumer demands. In this context, the marketing philosophy permeates the company as a whole. It can therefore be argued that marketing orientation is a way of managing a business decision in the entire company is made with full prior knowledge of its impact on the customer. The application of such marketing to oil marketing has come slowly with the exception of some way few companies. Where a company has attempted to adopt a marketing approach, effective integration of the kind described above has often not taken place. Indeed little or no attempt is made to integrate the activities of the marketing department with those of the company as a whole. Even more disturbing is the fact that many independent oil marketing companies have in reality no marketing departments but rather sales offices, yet deregulation and privatization have increased competition which

make it imperative for oil marketing companies to adopt a marketing approach to running their products. Indeed marketing is a source of survival, development and growth.

2.3.0 **MARKETING MIX.**

The marketing mix refers to the various marketing elements that are needed to achieve specific marketing objectives. It also determines what and where in the marketing process each element will be used. The components of a marketing;

1. The product.
2. The price.
3. The promotion.
4. The placement.

2.3.1 **THE PRODUCT.**

A company's product policy is fundamental to the whole operation of the business. Most new companies are conceived to produce a specific product or group of products, and it is this decision which dictates the industry to which they will belong, the markets they will serve, and the nature and extent of the resources, methods and techniques they will employ. These factors often tend to be overlooked, however, for most companies are long-established members of a given industry and inextricably linked with their product line. Similarly, it is often erroneously assumed that companies are irrevocably committed to their current product mix, which ignores the fact that apart from certain highly specific capital equipment, most corporate resources may be put to other uses.

The latter assumption may be attributed to the fact that companies rarely do undertake a radical change in product policy, that they should. This leads to companies taking too narrow a view of their market because they think in terms of their product offering, rather than in terms of the fundamental needs which these products satisfy. Thus the American railroads thought of themselves as the ultimate development in overland transportation, and failed to respond to the invention of the internal combustion engine which gave us the car, lorry and aeroplane.

The publications of Levitt and Peter Drucker, among others, have given us the concept of corporate strategy which, in essence, consists of a statement of the firm's objective, and the mix of policies to be used in the attainment of that objective. Gulf oil exemplifies the broad view in that it has defined its role as "servicing the travelling public". Although the company's past growth depended largely upon the refilling and sale of petroleum products to motorists, Gulf recognised that development in fuel cell technology and growing concern over air pollution may be sounding the death-knell of the petrol engine.

Hopefully, this example makes it clear that by defining the business they are in, and want to be in, Gulf did not commit themselves irrevocably to a given product mix, but will modify their product offering in the light of changes in consumer demand-this is their product policy.

The above examples clearly indicate that, overtime, man develops new and better ways of satisfying basic needs, with the result that as new products are introduced, established products become obsolescent and eventually pass into oblivion. In time the

cycle repeats itself, and the once new product suffers the fate of the product which it originally replaced. In many ways this process resembles the human life cycle, with its places of birth, growth, maturity, servility and death, and has given rise to the concept of the product life-cycle.

Table 2.CHARACTERISTICS OF LIFE-CYCLE STAGES.

Product life cycle	Introduction	Growth	Maturity	Decline
<u>CHARACTERISTICS</u>				
sales	-Low	-Fast	Show to decline	Declining Declining to zero
profits	-Negligible	-Peak levels	Begin to decline	Low Laggards
cash flow	-Negative	-moderate	High	
customers	-early adopters	-Mass market	Mass market	Taking market
competitors	-Few	-Growing	Many "me too" rivals	
<u>KEY ACTIONS</u>				
strategy	Expand market	-market penetration	-Defend share -falling	Productivity -Low
marketing costs	High	-High	-Brand loyalty	-Image maintenance
marketing emphasis	Product awareness	Brand preference	-	-Rising
pricing	high	-intensive	maintain/increase	-Selective
distribution product.	highly patchy	-Broaden position	-intensive	-Rationalize.
	Basic	-Improved	-Broaden position -Resegment	

Source: Peter Doyle: Quarterly Review of marketing, summer 1976, pp1-6.

In the first stage in the product life-cycle is represented by its introduction into the market. As with human beings, this is a critical stage for the product has little to protect it from the hostile environment into which it is introduced. (Fortunately, medical science has been more successful in protecting new-born off-spring than has the marketer!). Assuming survival, new products enjoy a period of increasing demand and valid growth, but as most innovations are merely substitutes for existing products, other manufacturers will react strongly to the newcomer, and their own decline in market share, stemming the newcomers growth. However, as the superior quality of the new substitute becomes apparent many suppliers will switch to it to protect their market share accelerating the adoption of the new product represent the onset of maturity.

In time, other new product will enter the market offering advantages over the now mature product, which will experience a decline in demand as consumers switch their allegiance. This phase has been characterised as simplify or decay. Classically the product life-cycle is represented as having four basic phases as represented.

In the context of new-product marketing we find that success is usually defined in terms of achieving a predetermined sales target within a specified period. It follows that the sooner one can achieve an initial sales diffusion will commence. In essence the logic is that proof of a sale adds conviction to the selling process, while word-of-mouth recommendation or pure visibility, e.g a new car at the curbside, will accelerate awareness of the new products existence and so improve the probability of further purchases.

Put very simply then, success or failure is highly dependent upon the speed which we can achieve initial sales and the lesson to be learned from the concepts is that effort to preidentify "early adapters" is essential to long success.

Unlike the human life cycle, however, one cannot predict the length of any of the phases of the product life-cycle. Table 2.1 provides a useful summary of how various characteristics such as cash flow and competition vary in accordance with the stages of the product life - cycle and their implications for managing mix.

2.3.2. THE PRICE

Price is the mechanism which ensures that demand and supply are in equilibrium. In other words, if demand exceeds supply then the price will rise to the point where the volume demanded by those willing and able to pay that price is equivalent to the point where the volume available. Conversely if supply exceeds demand then prices will fall until sufficient new buyers have entered the market to ensure the consumption of the available supply. Thus it is the price mechanism which determines whether firms will wish to enter or leave a given market because of the returns which may be earned on a given investment of resources. It follows that if all marketers were perfect and infinitely flexible then the return on investment would be the same in them all.

influence these conditions do not prevail

During a recession and in the short-to-medium-term at the micro economic or firm level, the emphasis is more than ever on survival and the need to ensure that revenues which depend on the volume sold and the price earned, exceed the costs of producing, distributing and selling that volume. Clearly, costs and prices must be

primary considerations in the development of a marketing strategy.

Price is the sum or consideration or sacrifice for which a thing may be bought or attained. For buyers, price may be regarded as an unwelcome cost. Price involves sacrificing the next-best alternative that could be bought. This is sometimes referred to as the opportunity cost. Price can also be used as a measure of the value of an item. For sellers, price is a key element in the marketing mix. It is an important selling point. "Getting the price right" is an important tactical decision and as such it is a key factor influencing revenue and profit. For Government, the price of individual products is an influence on the general price level- and hence votes.

The importance of price within the marketing mix varies from one market to another and between different market in the same market. In low-cost, non-fashion markets, price can be article (for example in sale of white emulsion and gloss paint for decorating). In fashion markets, such as fashion clothing, it can be one of the least relevant factors. Certain products are designed to mix a particular price segment (e.g.economy family cars) whilst others perform a specific function regardless of cost. For consumers with limited budgets, price is a key purchasing criterion, whilst for other for whom "money is no object", price is less important.

There are many possible objectives in establishing prices. A key assumption of many business theories is that profit maximisation is the most important pricing target. Studies of actual business behavior, however, reveal a wide range of objectives other than short-term profit maximisation.

A competitive price is one that gives a competitive edge in the market place. It is not necessarily lower than that of a rival because other elements of the marketing mix add to the competitive edge. For example, it is possible to argue that Gillette razor blades are better quality than those of rivals, giving scope to higher get more competitive price than those applying to other blades. A further aim of competitive pricing is to set a price that deters new entrants in a particular market.

There are many other possible objectives in establishing prices. For example, a company might feel that it is important to maximize sales to create brand leadership, or it might want to establish a high price to create a reputation for quality.

Once a pricing objective has been established, it is necessary to establish an appropriate strategy. Three broad strategies can be considered: low price and high price.

A low-price strategy should be considered when consumers respond positively to small downward changes in price. In technical terms, we can measure this response by calculating the elasticity of demand.

A high-price strategy, on the other hand, can be a long-term or a short-term policy. A long-term policy implies that the firm seeks to sell a high-quality product to a small, select market, high prices being an essential feature of up-market products. A short-term policy is based upon the advantages gained by selling a patented product (when there is also heavy investment in new equipment) or when there is some form of barrier to others entering the market.

2.3.3 THE PROMOTION

The promotional mix comprises all the marketing and promotional communication methods used to achieve the promotional objectives of the marketing mix. These methods can be broken down into two distinct areas; non controllable and controllable.

Non controllable methods are marketing messages which take place on the basis of word-of-mouth, personal recommendations and a consumer's overall perception of a particular product or service.

Controllable methods are marketing messages which are carefully directed to achieve the objectives of an organisation's promotional campaign. We shall consider four main areas.

1. ADVERTISEMENT - are messages intended to inform or influence the people who receive them. A message is paid for by an advertiser in order to sell a product or service or to seek support or participation. This category includes adverts on TV, radio and in magazines, but does not include promotional materials supplied with a product, promotional events, branding a company brochures. Advertising is an essential part of the promotional mix and requires particularly large levels of expenditure. It is therefore arncial that organisations try to analyse the effectiveness of their investment. The success of campaign will depend upon the way it appeals to the attitudes of its target audience.
2. SALES PROMOTION - describes a set of techniques designed to encourage customers to make a purchase. It usually complements advertising, personal selling and publicity, and might include point-of-sale materials, competitions, demonstrations and exhibitions. The essential feature of a sales promotion effort is that it is a short-term

achievement to encourage customers to react quickly, whereas advertising is a much more long-term communication process involving the building of a brand image. Promotions into the pipeline are techniques used to sell more stocks into the distribution system. While promotion out of the pipeline assist in promoting and selling products to the end-user.

The effect of individual sales promotions vary widely. Though most promotions using free samples lead to an immediate (if temporary) increase in sales, sales promotions are a short-term measure on the whole and have little effect on brand loyalty over a longer period.

3. **PERSONAL SELLING** - involves persuasive communication between a seller and a buyer which is designed to convince the customer to purchase the products and services on offer. The objective of personal selling is therefore to obtain a sale and is the culmination of all the earlier marketing activities. It involves matching a consumer's needs with the goods and services on offer - the better the match the more lasting the relationship between the seller and the buyer.

Personal selling is important in both customer and organisational markets. In customer goods markets, advertising is often the divining force which has pulled a product through the distribution network so that most consumers know what they want to purchase. In organisational markets, the purpose of a sale force is to push the product through the market.

The role of personal selling has changed considerably in recent years. However, despite data base management and changing patterns of distribution, personal selling

continues to play an essential role in the promotional mix.

4. **PUBLIC RELATIONS** - encompasses all of the actions of and communications from an organisation. The forces in an organisation's external environment are capable of affecting in a variety of ways. The forces might be social, economic, political, local and environmental and could be represented by a variety of groups, such as customers, shareholders, employees, special interest groups and by public opinion. Reacting to such elements in a way that will build positive image is very important.

The purpose of public relations therefore, is to provide an external environment for an organisation in which it is popular and can prosper. Building good will in such a way that will require sound organisational performance and behavior and the communication of such actions and attitudes to its many public.

2.3.4 **THE PLACEMENT**

It is generally agreed that the subject of marketing owes its origin to economists' inquiries into the nature of the distributive process at the end of the last century. However, despite this early interest, it is only in recent years that the firm has turned its attention to the role which distribution has to play as an element of competitive strategy.

In a review of the status of distribution in the 1960's, Donald Bowersox advanced two reasons which he felt accounted for the delay in the development of this area of marketing:-

- (a) the lack of computers and applied analytical tools sufficient to deal with the complexities of the problems;

- (b) the absence of adequate motivation. Of this it was felt that the latter was the more important and two main factors may be distinguished which were to provide the necessary motivation technological innovation and increased competition.

Writing in the April 1962 issue of *Harvard Business Review*, Peter Drucker characterized distribution as the "economy's Dark continent" and noted that where as the cost of physical distribution accounted for as much as half of the total cost of finished goods, it had received relatively little attention by comparison with managements' cost reduction efforts in other directions. Since the publication of this article there has been an enormous expansion in the literature of physical distribution, but it is significant that little of the research represented by this literature has been concern with the strategic implications of channel policy. As Bomersox notes, entrant concepts assume vertical integration or, alternatively, take the view point that physical distribution operations and responsibilities cease where a transfer of ownership occurs. The latter ignores the fact that many manufacturers sell at least part of their output through intermediaries, and implies that they take no further interest in the sales process once their outcome has passed into the wholesaler's inventory. Similarly, vertical integration is typical of present distributive structures.

Given the competitive pressures attributable to escalating costs, increased industrial concentration as the result of acquisition and mergers, and the threat of product obsolescence inherent in accelerating technological innovation, it is clear that distribution policy has become a question of acute importance to the marketer.

2.3.5 THE FUNCTIONS AND STRUCTURE OF THE DISTRIBUTION CHANNELS

In order to avoid misunderstanding, a channel of distribution is here defined as:

"The structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed. This definition was designed to be broad enough to include:-

- (a) both a firm's internal marketing organisation units and the outside business units it uses in its marketing work and;
- (b) both the channel structure of the individual firm and the entire complex available to all firms (Marketing Definitions: American Marketing Association, 1962). The Macmillan's Dictionary of marketing and advertising (2nd edn, 1990) explains further "a channel consists of all those steps through which a product must pass between its point of production and consumption.

As economies develop there is an increasing emphasis on specialisation and the definition of labour, as a result of which a "gap" develops between producer and user. The primary purpose of a distributive channel is to bridge this gap by resolving spacial and temporal discrepancies, certain essential functions need to be performed which may be summarized as:

1. Transfer of Title to the goods involved.
2. Physical movement from the point of production to the point of consumption.
3. Storage functions.

4. Communication of information concerning the availability, characteristics and price of the goods.

5. The financing of goods in transit, inventory and on purchase.

The importance of these functions varies, depending upon the nature of the goods themselves. Physical movement and storage tend to predominate in the case of bulky raw or part-processed materials such as basic chemicals, petroleum product and steel, where price and specification are standardized and market is comprised of a limited number of buyers and sellers. As the complexity of the product increases the provision of information and product service becomes predominant. In the case of consumer goods, advertising and sales promotion constitute the major communication channel, but industrial goods depend more on personal selling owing to the more heterogeneous nature of the goods involved and the possibility of modifying them to meet end-user requirements.

In essence, then, the functions are common to all distributive channels, but in the particular it is necessary to consider the precise nature of the product, and seller-buy relationships, to determine their relative importance.

Generally, the manufacturer is faced with three basic alternatives when deciding upon a distribution policy:

(a) Direct sale

(b) Sale through an intermediary

(c) A "dual" policy combining direct sale with the use of an intermediary.

The advantages and disadvantages commonly associated with these alternatives may be

disadvantages of using an intermediary may be summarized as:

Advantages:

1. **cost advantages:- use of an intermediary.**
 - Minimises the cost of a field sales organisation.
 - Eliminates ware-housing costs.
 - Minimizes inventory financing charges.
 - Minimizes sales costs-invoicing, financing of accounts, etc.
 - Minimizes the risk of loss through inventory obsolescence.
 - Minimizes loss through bad debts and reduces the cost of credit control.
 - Eliminates local delivery costs.
 - Reduces the costs of processing to meet non-standard orders.
2. **Coverage:-** The use of intermediaries allows the producer to search all potential users without having to incur the fixed costs which would arise if direct selling were used.
3. **Provision of service:-** Intermediaries can provide immediate availability and necessary pre-and after-sales service on a local basis more effectively than many producers.

Disadvantages:

The major disadvantage associated with the use of an intermediary is the loss of direct control over any, of the following:

Selling effort -Customer selection

- Call frequency

- Product emphasis
- Promotion and missionary selling effort.

Price.

Delivery.

Service - Standard and availability.

Clearly, the importance attached to retaining control over these functions will vary from product to product and from manufacturer to manufacturer.

(c) **DUAL DISTRIBUTION**

In order to try and reconcile the conflict between the desirability of direct contact and the economies offered by selling through an intermediary, many manufacturers have adopted a compromise solution, usually referred to as "dual" distribution. Under this alternative the manufacturer sells part of his output direct but entrusts the balance of his sell effort to an intermediary. As noted elsewhere, this policy is favoured by the existence of the "heavy half" phenomenon, where a limited number of users constitute the major demand with the balance fragmented among a large number of small or irregular users.

The major disadvantage associated with dual distribution is the difficulty intrinsic in determining a fair division of the market between producer and intermediary.

2.4.0 **SYSTEMATIC DISTRIBUTION**

Systematic distribution may be guided by the following principles as suggested by Lema (1993). these are:-

1. Forecast market demands for the distribution period under consideration and set the distribution objectives.
2. Calculate the production capacities available at factories (refineries).
3. Decide the production capacities available at plants.
4. Develop the demand data in terms of number and locations of customers, sizes, frequencies of orders and delivery lead times.
5. Decide the storage requirements and size of storage facilities.
6. Determine the need for trucking and decide the vehicles/tankers, etc and routes required if it is necessary.
7. Determine the vehicles/tankers and routes needed for local deliveries to customers.
8. Prepare delivery schedules for the vehicles.
9. Analyses the functional distribution requirements and structures a management organisation for the distribution system.
10. Decide the control procedures needed in the system for satisfying the customers.
11. Implement the distribution objective according to the strategic plans formulated earlier pari-passy organisation's mission.

Lema (1 bid) maintains that good distribution management begins with the plans to see if the objectives have been achieved satisfactorily. This comparison represents control and it is easier to control a system that is well planned. Understanding this is a logical process and it is necessary for constructive thinking to fill in the details of plan of action. Those details provide the information that helps the manager to plan for

uncertainty. To Lema (1 bid) a distribution system is like a gear-box it has a power supply input and an objective output, but in between are gear wheel's and interlocking teeth each of which influences the output. Power efficiency is lost at every contact point in a transmission system, but losses can be reduced with lubricating communication. Therefore, the more appropriate the informations the smoother the system will run.

2.5.0 MODES OF DISTRIBUTION FOR PETROLEUM PRODUCTS

Petroleum products are distributed in the following ways:-

(a) Ships

Ships are used for carrying petroleum products internationally. These are very large crude oil carriers (ULCCS) which have over 200,000 dead weight tonnage (dwt) of which they were about 148 of them in 1980 (Lema 1997). Vessels in excess of 350,000 dwt have also emerged and are classified as the ultra large crude oil carriers (ULCCS). Many of those vessels are equipped with bow and stern thrusters to improve maneuverability (Lema 1997).

(b) Pipelines

Pipeline is another mode of carrying petroleum products. Pipelines are designed, planned and constructed to evaluate oil from gathering stations where the components part are separated. The crude oil passes through pumps and trunk lines to an oil depot. The petroleum products such as liquified petroleum gas, gasoline, kerosine and gas oil are evaluated through the pipelines.

The effectiveness of the pipeline mode depends on the so-called pipeline system integrity. The pipeline integrity refers to the strength and reliability of the pipeline

system to perform safely and to meet the purpose of its creation without exceeding the specified limits when subjected to the maximum combined operating conditions during the design of the project. The elements of pipeline system integrity include linepipes, tanks, valves, pumps, supports, structures and foundations, that support and maintains these elements with safe and operational limits.

Governments have significant roles to play in the pipeline mode because of the role of the oil industry in National development.

The unit of carriage of the pipeline depends on the diameter of the pipeline and piping facilities. There are a variety of diameters, for example the 30-30" diameter for the tapline pipeline, which gathers the Parsian Gulf wells output to an outlet on the mediterranean; the 42" diameter pipeline linking Suez to Alexandra; the 56" diameter pipeline serving Siberia the Urals. The Caucasus and the Ukraine,etc (Iniodu, 1995).

(c) Tank containers

As the name implies these containers are built in the form of tanks. Not only tank containers substituting for carriage in bulk vessels, but they are encroaching on the movement of bulk liquids in metal drums. The reason is that, liquids moving in tank containers achieve point to point delivery and avoid problems of bulk-transfer and intermodal interchange of drums. Leakage and contamination problems have also weighed against drum used in some cases.

(d) Overland transport

Petroleum products are carried by road tankers and railway tankers overland. To meet variety of order size, the products are also carried on trucks and wagons in the form of drums and barrels, cans, bottles, plastics, containers, etc.

2.6.0 OWNING, LEASING OR CONTRACT HIRING OF DISTRIBUTION VEHICLES/VESSELS.

In making cost comparisons between modes of petroleum products movement, a company will need to consider a number of other matters connected with delivery operations. These include owning, leasing or contract hire. According to Ogden (1992) vehicles/vessels may be classified in the following three classes;

- (a) Vehicles/vessels owned by "professional" commercial carrier (referred to in some other parts of the world as "for hire" carriers or hire and reward carriers") who carry freight such as petroleum products for others for payment. They can also lease their vehicles.
- (b) Private carriers (referred to also as "auxillary Carriers") who carry freight as an adjunct to the main business of the firm.
- (c) Vehicles which are leased for a period of time or to carry a given quantity of freight.

Owning a fleet of carriers require a considerable amount of capital to produce the vehicle and to operate and maintain them. The main constituents of transport operation costs are as shown in table 2.1 below

TABLE 2.2 VEHICLE OPERATING COSTS

- (i) Drivers wages
- (ii) Vehicles running costs
 - Fuel
 - Tyres
 - Oil
 - Maintenance
 - Replacement.
- (iii) Vehicle Depreciation
- (iv) Vehicle Registration
- (v) Overheads
- (vi) Packaging
- (vii) Storing
- (viii) Loading and unloading
- (ix) Recording
- (x) Insurance
- (xi) Damage
- (xii) Theft
- (xiii) Late delivery and unreliability.

Source: Lema E.S. (1996).

Items (i) to (v) are transport operations on "movement" costs, that is, costs which are directly associated with the actual physical movement of the goods. Items (vi) to (xiii) are terminal costs borne by a shipper or the receiver of goods over and above the cost included in the freight movement.

Vehicle ownership may often encounter the petroleum of down time of there is no freight to carry. A vehicle or vessel standing idle in the terminal will not yield revenue. Also effective ownership requires planned vehicle maintenance and operations. Vehicle ownership is recommended for large distributors of petroleum products.

Other distributors prefer the use of private tankers/vessels in order to achieve control, reliability and consistency. Looking at the cost aspect, the cost of running a private tankers may be less than living (leasing) cost. There is the inability of arguementing an account to meet time constraints.

A deciding factor will be the availability of capital, and whether any capital released could be used for more profitable parts of the business. Any exclusive commitment to one alternative could be criticized and the best compromise may be to skim the cream of regular traffic with company owned vehicles/vessels and meet the balance by living (leasing), especially at peak. Periods - (Lema, 1996). Vehicles may either be lined on a self drive basis, which ensure the most complete day to day control of operations, or lined with drivers.

2.7.0 MARKETING CHANNEL POLICY MANAGEMENT

A channel is a course in which anything moves. It could be a passage of liquids, goods, raw materials, component parts, finished products and the like. All goods move

through some sort of distribution channel. This may be a direct sale from the producer to the consumer or it may include extensive service of intermediaries between producer and consumer (Lema 1993) This has already been discussed in 2.3.5.

2.7.1 MAJOR DETERMINANTS OF CHANNEL POLICY

Fundamentally, the channel decisions requires resolution of the often conflicting forces of cost and control.

Cost is readily understood even if it is sometimes difficult to qualify, and several aspects of control have already been stated. However, the concept of control must be broadened to recognise the fact that a firm's ability to exercise control is a function of its competitive strength vis-a-vis other channel members of the distribution channel dominates its practices and is regarded as the "locus of channel control" (Louis P. Bucklin, 1968 conference of A.M.A. pp.142-7). In general the dominant members are either producers or users/consumers, but there are situations where a channel intermediary may be dominant and so condition the structure and operation of the channel. The latter situation is most likely to occur where both producers and users are small and the market is geographically dispersed, and is equally true of retailers/wholesalers in the consumer goods market as it is of the industrial goods wholesaler. Overall, dominance or control is determined by a number of factors which may be summarized as;

Buyer/seller concentrations ratios in terms of production/consumption, and spatial relationships. Technical complexity. In the of technically complex products, dominance will be conditioned by relative sophistication of the producer vis-a-vis

the intermediary and/or user. Thus a small firm may exercise considerable influence over much larger users and intermediaries service requirements - the more complex these are the more likely it is that the producer will exercise control.

In the final analysis, the determining factor is economic advantage, ie which channel member can perform the necessary channel functions at the lowest cost consistent with the required degree of efficiency of its members, but it is clear that over time environmental changes may predicate the adoption of an alternative structures to better meet the needs of users/consumers. Similarly, lack of control may persuade a channel member to modify his policies in order to protect his position - a tendency which is implicit in Calbraith's concept of "countervailing power".

Examples of competitive reaction within the distributive channel are well documented in the field of consumer goods but less so in the industrial sphere. The growth of dominant retailing institutions was noted earlier, together with the response of the independent wholesaler whose livelihood was threatened, and similar trends are to be observed in industrial markets.

Among the latter may be noted the adoption of contract purchasing, stockless purchasing, also known as systems contracting, tackle purchasing, automatic ordering or "just in time" (JIT) purchasing. Under this system, buyers negotiate contracts for the continued supply of standard requirements from a single source at a fixed price. Effectively, this reduces the actual stock of parts, supplies or components to the obsolete minimum consistent with day-to-day operations, and transfers the inventory costs and

risk of obsolescence to the supplier. Such contracts are invariably based upon a total cost analysis rather than on a basis of minimum price. Associated with contract purchasing is a growing trend in the United States towards computerised ordering systems in which standardised and routine orders are placed direct with the supplier (producer or wholesaler) through the medium of electronic data processing equipments eg. Data phone, WATS-Line and teletypewriter. In that these practices not only result in operating economies but also free the purchasing agent to devote more time to non-routine buying decisions, they are resulting in a fuller and more sophisticated evaluation of competitive offerings. In the UK Kwik-fit operates such a system for all its outlets.

To counteract the growing sophistication of buyers, many sellers have switched to systems selling, in which they offer a complete "package" of selected products and services which would formerly have been purchased from a variety of different sources. Similarly, the appointment of market managers, as opposed to product managers, recognises the need to adapt marketing practice to the specific needs of different end-use markets.

2.7.2. THE CHANNEL DECISION

Whether one accepts profit maximisation as the basic corporate objective or not, it seems reasonable to affirm that uncertainty about the future business environment and the competitive activity of other firms will predispose the firm to reduce costs to the minimum level consistent with achievement of its own stated objective. If this is so, then the channel decision may be viewed as a three-stage process. The first stage consists of a qualitative assessment of the environmental opportunity which the firm is best suited

to exploit, conditioned by less tangible objectives such as "To build the best product".
"To provide the best after-sales service".

Once the broad strategy has been determined, management must decide which mix of policies offers the optimum probability of attaining the defined result. Such decisions cannot be made in isolation, for the success of a strategy demands that the separate marketing policies in respect of price, distribution, promotion etc, be synthesized into a consistent and cohesive whole. Usually, however, one variable will take preeminence over, the others by virtue of the basic strategy decided upon-the "strategic variable". For example, if the basic strategy is to sell mass consumption convenience goods, extensive or mass distribution may well be considered the key or strategic variable, and will condition policies adopted in respect of other mix elements. Similarly, if the basic strategy is to build a reputation for high product quality the product itself will become the strategic variable, and probably result in a high price, selective distribution policy.

In order to decide which distribution channel or combination of channel is to be preferred the marketer should then quantify the costs associated with the available alternatives. This analysis should be based initially on a check-list similar to that discussed earlier, followed by a detailed cost break down for direct sale to the number of accounts thought to be necessary to achieve the desired sales volume. Such a breakdown would normally include consideration of the following:-

- Number and geographical distribution of accounts.
- Number of calls per account adjusted to allow for potential order size.
- Average sales per call.

- Average time per call.
- Number of sales men necessary to achieve the optimal call pattern.
- Salaries and commission payable.
- Travelling and administrative cost included.
- Costs of holding inventory.
- Costs of financing receivables.
- Costs of extending credit.
- Costs arising out of bad debts.
- Costs of providing necessary services.
- Costs of invoicing, order processing, expediting, etc.
- Transportation costs.

On the basis of such a cost analysis one may then compute the average selling, general and administrative costs per unit sold, and compare this with the gross margin asked by intermediaries for providing the same services and market coverage. Obviously, if the margin asked is greater than the average unit cost, direct sale will appear more attractive, and vice-versa.

The outcome of such an analysis is samely clear-cut, however, and even when it does appear so it does not necessarily represent the optimal strategy. The latter may only be determined effectively on a marginal or contribution basis, which in turn will usually require the use of a computer to cope with the enormous number of possible combinations and permutations.

As inferred earlier, the selection of a strategy is basically a judgmental process. Only under certain limited circumstances will the decision-maker be without prior information, and in most cases his evaluation will be based upon a consideration of alternatives related to consent practice. Although he will still be faced with consideration uncertainty, the existence of prior information suggests that the channel decision should be amenable to analysis using a Bayesian approach. It demonstrates that if the decision maker can quantify his expectation as to the probability of the occurrence of basic events, he will be better able to select the policy which will maximize profits or other preferred criterion.

Once the optimum distribution policy has been quantified, the final step in the analysis should be to review the original qualitative assessment in the light of the quantitative data and to eliminate any inconsistencies, eg. the quantitative analysis may suggest that the original decision would not optimise the opportunities open to the firm.

2.8.0 COMMUNICATION

One very important element that makes distribution effective is communication. Wibur Schramu defined communication as "the process of establishing a commonness or oneness of thought between a sender and a receiver" (University illioris press, 1955, p.3). central to this definition is the concept that for communication to occur there must be a transfer of information from one party - the sender which is received and understood by the other party - the receiver. In other words both receiver and sender play an active role in establishing communication - a fact which is given particular point when one considers that the average consumer is estimated to be exposed to approximately 3000

promotional messages a diary but only receives none of these messages.

Pictorially, the simplest model of the communication process is shown in fig. 1.1. However this simple model ignores the fact that it is necessary to convert ideas into a symbolic medium to enable them to be transmitted via a communication channel. To allow for this we must introduce two more elements into the model-encoding and decoding - as shown in fig. 1.2.

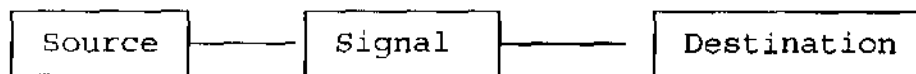


Fig. 2.1. Simplified communication model.

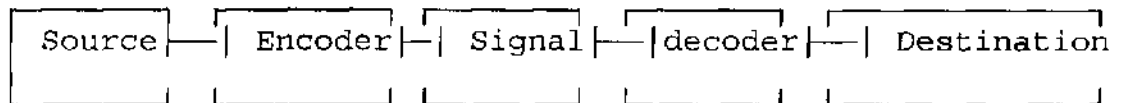


Fig. 2.2. Communication channel model.

We must recognise that all communication is extended to have an effect and introduce the notion of feedback into our model of communication, for it is through feedback that the source learns how its signals are being interpreted. In personal communication feedback is often instantaneous through verbal acknowledgement gesture but in impersonal communication through the mass media it may have to be inferred from other indicators, eg. audience size, circulation, leadership, or monitored by sampling opinion.

The marketers view of communication contains all the following elements;

- (1)
- (2)
- (3)
- (4)

WHO.....	SAYS WHAT....	HOW.....	TO WHOM.....
Communicator	Message	Channels	Audience

(5)

With what effect.....

Feedback.

The following must be fulfilled if the message is to arise its intended response;

- (1) The message must be so designed and delivered as to gain the attention of the intended destination.
- (2) The message must employ signs which refer to experience common to source and destination, so as to "get the meaning across".
- (3) The message must arise personality needs in the destination and suggest some ways to meet those needs.
- (4) The message must suggest a way to meet those needs which is appropriate to the group situation in which the destination finds himself at the time when he is moved to make the desired response.

2.8.1 THE ROLE OF COMMUNICATION IN MARKETING

As a process marketing is firmly founded on the assumption of effective two-way communication of consumer telling firms what they want and firms informing the consumer what they have to sell. In this sense communication is central to everything the firm does and pervades all its activities. However, when we speak of marketing communications we do so in the more restricted sense of those functional activities which are collectively known as "promotion"-advertising, personal selling, public relations and sales promotions. The basic objectives of promotional strategy are;

- (i) Increase sales.
- (ii) Maintain or improve market share.
- (iii) Create or improve Brand recognition, acceptance or insistence.
- (iv) Create a favourable climate for future sales.
- (v) Inform and educate the market.
- (vi) Create a competitive difference.
- (vii) Improve promotional efficiency.

Clearly there is considerable overlap between these seven objects but the distinction them is important because emphasis between any one will tend to lead to a different promotional mix being required. For example, creating a favourable climate for future sales is most appropriate for industrial products and consumer durables where there is long repurchase cycle. Thus costumers need to have the wisdom of their previous purchase confirmed in order to reduce post-purchase cognitive dissonance and will also

respond favourably to advice on how to get the best out of their purchase. Conversely if one is seeking to mix customers from other manufacturers, then one may be seeking to engender cognitive dissonance by suggesting the currently preferred brand is inferior to your own. To achieve this subjective it will often be necessary to use different messages and different channels - a requirement which will only be apparent if one has carefully defined the objective in advance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology employed in the course of this study. It includes the study population, sapling and sampling technique method of data collection and data analyses technique.

3.2 Study Population

The study population is considerably large. There are eight (8) registered independent marketers within the geographical area under consideration. Include in the study population are the marketers and staff of the Nigerian National Petroleum Corporation (NNPC) (refer to table 5.1) As a result of this large population, it became necessary to gather data from a sample.

3.3 Sampling and Sampling Technique

It became apparent throughout this study that the larger the number of the population sampled, the more credible and diverse information would be obtained. A total of 120 people from 40 independent marketers were sample. This represents three persons from each marketing firm. Within each firm, one junior, one senior staff and chief executive were selected. Where the chief executive could not be reached , a top management staff was were sampled. A total of ten (10) NNPC staff were sampled, mainly from the marketing department.

The sampling of the independent marketers and NNPC staff done using the random sampling technique.

3.4 Method of Data Collection

In the course of this study, both primary and secondary data were employed. Data were gathered directly through interviews of NNPC staff and staff of selected independent marketers. (refer to appendix I.

In addition to these data, useful information were obtained from documentary wideness, mainly through journals, annual reports and official documents of both that of NNPC and those of independent marketers.

In all, forty (40) independent marketers and ten (10) NNPC staff were interviewed.

3.5 Data Analysis Technique

The information gathered would be arranged logical order, presented in tables and analyzed using the percentile arrangement method and descriptive statistics, in view of the objectives of the study.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the data and its interpresentation, in view of the objectives of their study. It appraise the contribution of the independent marketers in the distribution of petroleum products in Nigeria. It also presents the findings of the study.

4.2 Data Presentation and Analysis Technique

Available data were arranged in tropical order and presented various tables. Analysis was done using the percentile arrangement technique and statistical methods. Findings were drawn from the analysis of the data.

4.3 HISTORICAL DEVELOPMENT OF MAJOR MARKETERS AND ORGANIZATION

Petroleum Products marketing began in 1907 with the establishment of a trade link in "sun flower" Kerosene by second vacuum oil company (now mobil). This has since expanded to cover a whole broad range of petroleum products. Table 4.1 shows the petroleum products produced by Nigerian Refineries.

Table 4.1 **PRODUCT PRODUCED BY NIGERIAN REFINERIES**

(i) Volatile Products	Liquified gases.
(ii) Lighth oils	Gasolines, Jetfuels and Kerosene.
	Diesel fuel and gas oil
(iii) Distillates	Motor, engine, gear oils
(iv) Lubricating oils	
(v) Greases and Waxes	Fuel oil, asphalt, carbon black
(vi) Residues	

Source:- Field work 1997.

Until about 1990, Kerosene was used as an illuminant and the main product of the petroleum industry. The market for Kerosene was very limited economically then, Nigeria was little developed and in addition, possessed an alternative local source of illumination in palm oil. Small quantities of Kerosene were imported by trades who retail the products over the counter in the original container. Due to these limited sales, oil company entered the Nigerian market directly until 1907 when an American oil company, Second-Vacuum oil made first agency agreement, the trading company sold exclusively this oil company's product on a commission basis and were responsible for local expenses and credit risks. This agreement encourage immediate sales penetration of the whole geographical are of Nigeria and other West African countries which other wise would have many years to develop.

Until 1956 all oil companies active in Nigerian (America, British, Dutch, France, Italy) used this agency system to enter the market. In 1920, two such companies were presented by trading companies, this grew to four (4) in 1924 and by 1955, Six (6) of such companies had been represented.

The increased use of machinery during the first world war brought changes in Nigeria. Because traders were unable to supply advice needed for the selection and use of proper fuels and lubricants required by the new machinery, engineers of the oil companies came to Nigerian to provide this advice . From 1920 onwards the oil companies established offices in Nigeria beginning first in Lagos and later in PortHarcourt and Kano.

In this way, a two stage hierarchy of oil industry enroled; marketing systems operated by traders covering the whole country and consulting service provided by the companies based in four towns. The establishment of this advisory services helped the oil companies to get accustomed to Nigerian conditions and trained Nigerians in technical operations.

The growth of gasoline sales to the next major change in oil marketing in Nigeria. Instead of importing products in containers, usually from the United States of America, it now become economical tool input in bulk by tank or tanker loads from the Netherlands and West Indies. These product filled into containers at terminal ports in Nigeria (Lagos and PortHarcourt). Large quantities of products (20,000 tonnes/year) had to be handled to make this process economical. All oil companies already established in the country, merge their operations into one joint organization, for none of the companies

had a sufficient turnover or experience to operate such bulk terminals. In 1927, one such terminal depot was in Lagos port and by 1930, another terminal was opened in PortHarcourt. The management of the joint organization was done by one company on behalf of all the participants who were charged fees according to their through points.

The substantial growth of the Nigerian products market in the 1956 to 1965 decade gave some companies sufficient turn over to permit economic operations of their own terminals and bulk depots without any sharing on a through point basis. Thus some of these joint organizations were gradually liquidated or their membership changed. As a result, a new geographical pattern of oil company installations emerged in all major ports and larger regional markets, several terminal or bulk depots appeared.

During the 1930's bulk sales from gasoline stations operated by trading companies began to develop. This method of retaining expanded after the second world war, allowing this permitted bulk deliveries to these stations, first from ports terminals and later from bulk depots established in the interior of the country. Until about 1956, all gasoline stations were leased to local operators. By that year, most of the oil companies had established the necessary organizational facilities in the country thus agency agreements with trading companies were no longer needed.

By 1965, only a few agency agreements remained in force and the new marketing pattern that resulted was establishment of administrative regions by oil companies. The coastal marketing regions handled longer volumes than the interior regions. Particularly in the north, distance rather than volume determined the distribution in these regions. Export to neighboring countries were usually handled by the marketing regions adjoining these countries.

4.4 MARKETING PATTERNS OF PETROLEUM PRODUCTS IN NIGERIA

Foreign marketers had been very important to the Nigerian Petroleum industry. The present pattern for markets for Nigeria's petroleum products can be discussed under the following two main areas; external and internal markets.

External market comprises mainly the exporting of crude oil to neighboring countries. Since North African countries served by Libya and Algeria; East and South African countries; the were served by the Persian Gulf countries; the only available market for exportation for Nigeria's petroleum are the West African countries. But the energy requirements here are limited and consequently the West African markets are not of major importance for Nigeria's petroleum.

American, which is the most important market for Nigeria's petroleum is also being supplied from the Middle East, the Caribbean and Canada, so the quantity of petroleum supplied from Africa is comparatively insignificant.

West European countries, used to be the main market for Nigeria's petroleum for it was observed that the total import of crude oil into western Europe from 1957 to 1965 increased at an annual rate of 15%. But since the coming on stream of the similarly sulphur for petroleum the North Sea, the situation has changed. The U.S.A. still remains the most important market for Nigeria's petroleum (through this has continued to decline due to recent oil production in Alaska).

The international petroleum marketing can be discussed under two main headings, namely; crude oil and refined products. The local processing of crude oil as previously observed is of recent innovation. Thus only small proportion of crude produce in Nigeria is processes in the four refineries in operation.

Table 4.2 shows the distillation capacities in these refineries.

Tables 4.2 NIGERIAN OIL REFINERIES AND DISTILLATION CAPACITY AS AT 1997

Refinery Location	Type of Refinery	Distillation capacity (in barrel)	Current Crude (through put in barrels)	Completion Date
1. Alesa-Eleme PortHarcourt phase one.	D/R	60,000	60,000	1965
2. Ekpan-Warri	D/R	125,000	42,000	1978
3. Kaduna	D/R	123,000	38,000	1980
4. PortHarcourt	D/R	150,000	-	-

Source: Field Work 1997

Notes:

C = Cracking

D = Distillation

R = Refining

As presented in the table 4.2 above, the Alesa-Eleme PortHarcourt (phase one) refinery which was completed in 1965 distills and refines crude oil with a respective capacity of 60,000 barrels. The Ekpan -Warri was completed in 1928 and has a distillation capacity of 125,000 per day (barrels) and a amount crude production of 42,000 barrels / day. The Kaduna refinery was completed in 1980 wicompleted in 1980

with a capacity to distillate, crack and refine 161,500 barrels/day. From the above it can be deduced that only Alesa-Elеме refinery refines up to capacity others produced for less than capacity.

The total volume of crude oil that is supposed to go to these refineries is 450,000 when all the refineries are in full production capacity as compared to 1.3 million barrels produced daily (the 1.3 million figure is the OPEC production ceiling for Nigeria). See appendix II for a map of Nigeria showing the network of petroleum distribution across the country. From the above it can be seen that most of the crude oil produced in Nigeria is for external market.

As noted earlier, the first product ever introduced into the Nigerian market was paraffin. This product, like Kerosene, was also imported in tins and was mainly used for illumination and cooking stoves developed "paripassu" the availability sales of Kerosene. It was also noted that at that time the oil companies were not directly represented in the Nigerian market. Agents with big shopping centers and retail outlets/network, were appointed as retailers first for Kerosene and later all other petroleum products e.g UAC, PZ and John Holt.

Over the years, it became necessary for the companies doing business in Nigeria to be represented directly. This followed the commencement of importation, power generators and the increasing demand for lubricants and other white products in the industrial and urban centres of the country.

It is necessary to enumerate the principal petroleum products that are mainly marketed in Nigeria and to indicate their main destination in order to be able to

appreciate their importance. The most common and probably the most marketed product in the super petrol. This is a premium of 93 octane rating mainly used for fueling cars.

The regular or manual (known as star) petrol is also a high quality product with a minimum of about 84-86 octane rating and is used for medium sized automobiles and lorries designed to use petrol. A specially refined kerosene is also used as fuel in jet aeroplane because of its less flammable characteristics. Gas oil is another very important industrial fuel which is mainly used for fuelling diesel engines, tractors, trucks, big trailers, lorries, ships, ocean tanks and canes. It is the most popular source of energy in the building, construction, engineering and transport industry.

Lubricants are highly demanded in the industries for improving the performance of engine and automobiles by reducing friction on surface, protecting interior of engines from rusting and corrosion. As such, the requirements are those for spark - ignition and diesel engine motors which are mainly purchased from petrol station in form of automobile lubricants. However which accounts for the marketing as well as for different grades and types of lubricants.

Fuel oil is another product which is used for heating. The demand for pour fuel oil is mainly restricted to the big industries like textile mills and the industries that use boilers such as NEPA and cement factories. The high pour fuel is generally exported as it is not in much demand locally.

Liquified Petroleum Gas (LPG) is becoming popular in cities and towns as well as industries, canteens, and houses for domestic cooking. LPG is sold in bulk or in

bottles or in cylinders and as can be seen, it is available throughout the country from petrol stations or from distributors. Petroleum gas is mainly used for cooking and lighting.

The other petroleum products mainly imported at present are the bitumen used for road buildings and construction. Besides these products, there are a lot of other bi-products or crude oil which are in very high demand in this country at present. Such bi-products obtained through petro-chemical industry include insecticides, pesticides, fertilizers, wax, greases, cosmetics etc.

4.5 CHANNELS OF DISTRIBUTION

Petroleum products marketing as we have it today is a recent innovation. Up to about 20-25 years ago in this country, petroleum products were mainly sold by agents of multinational companies (not an organised marketing system as we have today). The real marketing started in the early 1960's. Particularly after the commissioning of the refinery at Alesa-Elеме near PortHarcourt. The boost given by the local production of our refinery encouraged the development of petroleum filling stations which began to emerge as a distinct entity of sales and image making for the country. These stations which are the main retail outlets for the sales of super, normal gas oil as well as lubricants began to see rapid development in urban and semi_rural areas throughout the federation.

The other main channels of distribution are through primary consumers, resellers government and corporations. These consumers include small transport owners, garage industry owners and those whose products require the installation of little surface and

underground tanks for their own direct consumption. The re-sellers buy in bulk and resell to individuals. The interesting aspect of this channel in the development of peddling system of Kerosene sales, where market zones are carried out and a bulk tanker is allocated through an agent who sells into the surface tanks of re-sellers who generally sell on retail. As well as the corporations and industries whose purchases are generally done on contractual basis over a period of one, or two or three years of tender. However, of late, New channels of sales that are becoming increasingly impressive are through independent marketers.

4.6 INDEPENDENT AND MAJOR OIL COMPANIES

Marketing of petroleum products in Nigeria is done by both major and independent marketing companies which are licensed to distribute all categories of petroleum products. See appendix III for a list of major independent marketers.

Figure 4.1 present the names of companies involved in the marketing of petroleum products in Nigeria.

Figure 4.1 LIST OF MARKETING COMPANIES DISTRIBUTING
PETROLEUM PRODUCTS IN NIGERIA

- (i) Mobil
- (ii) British Petroleum (now African Petroleum)
- (iii) Total
- (iv) Agip
- (v) Texaco
- (vi) National Oil and Marketing Company
- (vii) Unipetrol
- (viii) Elf
- (ix) Independent Marketers (See Appendix III)

Source: Field Work 1997.

Products sales are made through the above mentioned major companies and over 500 independent marketing companies who have numerous dealers all over the country. The marketing policy of each company is largely left to the individual company but all marketers operate within the laws of the state and the over all control of the Federal Ministry of Petroleum Resources.

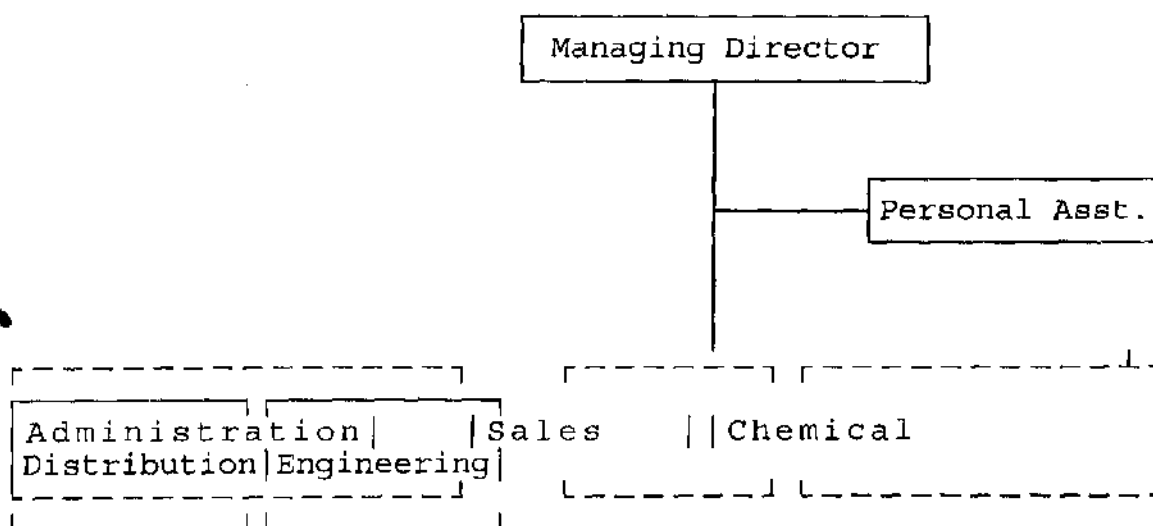
4.7 ORGANIZATION OF MAJOR MARKETERS

Except for the independent oil dealers who operate their filling stations themselves, major marketers lease out their contractual basis. This is a contract agreement between an oil company (who owns the station) and the dealer (who operates the station). An example of a contractual agreement between one of the oil marketing

companies in Kaduna and its dealers is set out below:-

The company has five divisions; Administrative, Sales, Chemical, distribution an engineering /technical service. The sale division which is the area of concern is further subdivided into the following; retail (petrol stations), aviation fuel, domestic (LPG) and Kerosene), bitumen (road construction) commercial and industrial (lubricant and fuel).

Figure 4.2 **ORGANIZATIONAL STRUCTURE OF A TYPICAL MAJOR MARKETER**



Source: Field work 1997

4.8

DEALER-MARKETER RELATIONSHIP

In the case of retail outlets, the following procedure options:- Land is acquired by the company and in some cases by a dealer. The station is then built by the company and dealers are appointed through advertisement dailies based on the following criteria:

- (i) license to sell petroleum products (actually obtained from federal ministry of trade and industry)

- (ii) financial competency.
- (iii) financial stability
- (iv) compliance with the company's relations; for example, no fuel supply from other source except through the company allowed.

Ability to learn and perform well to project the image of the company through good service.

After the appointment of dealers, they are made to pay two types of deposits.

- (i) A deposit which serves as a collateral security and a dealer can only get that back after the termination of contract.
- (ii) Deposit for the purchase of products from the company. The dealer uses his own capital to buy the company's products as such he has a small profit margin. In the case of dealer ownership (D/10) the control in the same but profit-margin (commission) is slightly higher.

All dealers buy petroleum product from the company and the company supplies all the product sold in filling stations.

The company appoints transporters on contract basis. These transporters in turn carry products from the oil refinery to filling stations. These transporters are made to inscribe on their tankers the company's name. Thus most of the oil-tankers we see on our roads are not owned by respective oil companies but many private transporters.

The cost of transporting these products to the filling station are already built into the contractual agreement. Changes transportation are based on distance rate equalization fund. This fund is subsidized by the government for certain areas based on distance, thus

bringing fuel at equal price to all consumers throughout the country.

The company is responsible for the servicing and maintenance of equipment in the filling stations. In case of accidents or fire out breaks, the company breaks the responsibility of paying compensation to those concerned. The control oil marketing companies in Kaduna is solely the responsibility on NNPC. This control centres safety of marketing operations.

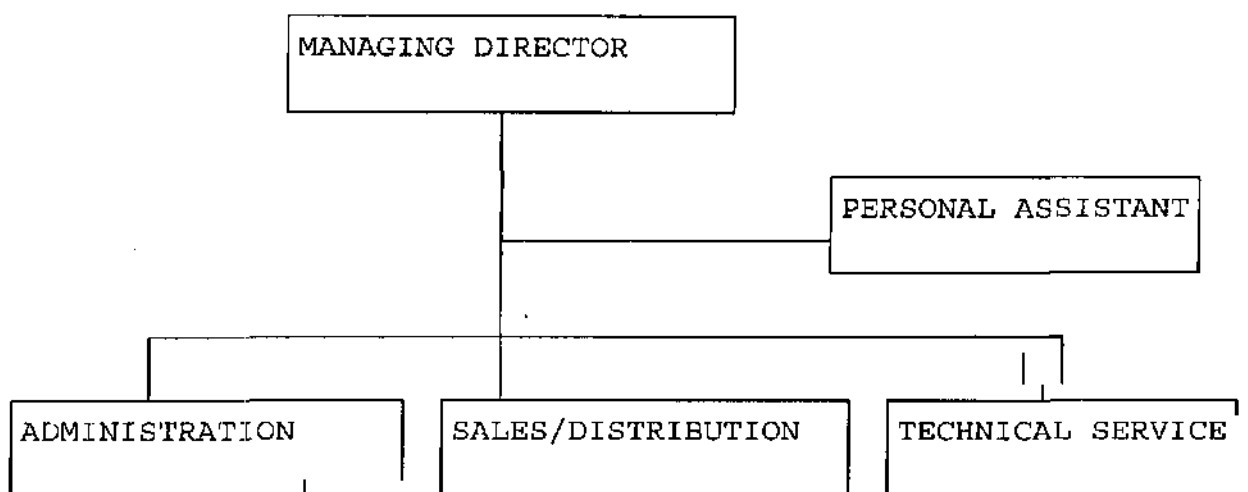
The above analysis exposes the inadequacy of petroleum, distribution systems in Nigeria. Under normal circumstances, there is suppose to exist an open competition between the various markets. But from complimentary relationship, as it appears no one category of marketer is able to reach out to the customers adequately without the support of the other.

4.9 **ORGANIZATION OF INDEPENDENT MARKETERS**

Independent marketers operate in much the same way as the oil marketers in distribution of petroleum products. The dissimilarities however, lives in the diversity operations and capital base. While independent marketing activities are limited to a few geographical areas of a state, major oil marketing activities cover all the states of the country. Another major dissimilarity is in the structure itself. The major oil companies are larger, with many functional departments including administration, sales, engineering, research / development etc while the independent marketer is smaller and includes limited departments such as administration sales/distribution and technical services.

Figure 4.30

ORGANIZATIONAL STRUCTURE OF A TYPICAL INDEPENDENT MARKETER



Source: Field Work 1997.

4.10 NNPC ALLOCATION OF PMS TO INDEPENDENT MARKETERS IN KADUNA AREA

Table 4.3 presents a typical PMS product allocation for April 1996. Altogether, 80 independent marketers are registered to lift products in Kaduna area.

The number of allocations to individual marketers during the month from 2 to 13 into an average of 11, but in reality, marketers were only able to get 3 allocations in the month, respecting 46.25 percent of the entire lifting allocation programme. Two allocations with a frequency of 27 represented 33.75 percent of total lifting while 2,9 and 13 liftings represented 1.25 percent within the month.

4.11 AN ANALYSIS OF LIFTING PROGRAMME BY INDEPENDENT
MARKETERS

Table 4.3 PMS ALLOCATION TO INDEPENDENT MARKETER FOR APRIL
1996

No.liftings/month	Frequency	% of total lifting
2	27	33.75
3	37	46.28
4	4	5.00
5	3	3.75
6	4	5.00
7	2	2.50
8	1	1.25
9	1	1.25
13	1	12.5

Source: Authors Survey 1997.

A further analysis shows that lifting for 2 and 3 days account for 80 percent of total lifting programme. This implies that most independent marketers are small in size and capital.

Marketers purchase PMS products at ex-depot/refinery prices of N11.00 per litre and sell at the approval margin. Products shortage at a depot is met by margin

"budgeting" the products nearest depot/refinery or importation from other countries by NNPC at no extra cost to marketers.

4.12 TRANSPORTATION OF PMS

It was revealed in the survey that majority of the marketers use their own tankers. However most of these were discovered to be old and the marketers did not have adequate financial base to replace them. moreover, there was evidence of lack of maintenance of tankers.

4.13 AVAILABILITY OF THE PMS PRODUCTS

Majority of the independent marketers interviewed complained that NNPC could not make the pms product available to them as regularly as they would have desired. NNPC officials interviewed opined that the genuine effort of the company to make the product available partly hindered by the smuggling activities of the independent marketers and black marketers. The respondent explained further that the retention of the subsidy has made Nigerian petroleum product the cheapest in Black Africa and this has encouraged smuggling of product to the neighboring countries where they are sold at more than twenty times the purchase price (see table 4.4) this implies the need to remove the subsidy in view of the extensive and porous nature of our borders. The shortage of pms, However could also be partly attributed to frequent breakdown of the refineries in Nigeria. Rarely do these plants operate at full capacity of 450,000 barrels per day compared to daily consumption of 18,000,000 liters.

Table 4.4 PMS PRICE IN NEIGHBORING WEST AFRICAN COUNTRIES
BEFORE 1993 FUEL PRICE INCREASE

<u>COUNTRIES</u>	<u>PMS PRICE (IN LITERS)</u>	<u>% OF RELATIVE PRICE IN</u>
<u>NIGERIA</u>		
Nigeria	0.7	-
Benin Republic	14.75	5
Cameroon	20.4	3
Niger	16.2	4
Chad	20.6	3
Ghana	12.4	6
Togo	<u>17.4</u>	<u>4</u>
Average	<u>18.6</u>	<u>4</u>

Source: NNPC Bulletin 1994

From the table above, it could be seen that the petroleum product in Nigeria is the cheapest in the west Africa Sub-region. The price per liters in Nigeria is only 5% of that charged in Republic of Benin and a means 3 percent charged in Niger republic; percent in Chad, 6 percent in Ghana and 4 percent in Republic of Togo. This price disparity, as can be seen, is so wide there by encouraging smuggling of the already inadequately supplied petroleum products from the NNPC, Leading to scarcity of the pms in filling stations in Nigeria

4.14 CARRIAGE OF THE PMS PRODUCTS

The survey allowed that the products are distributed by road transport (tankers/lorries). Table 4.5 shows the types of tankers used and their capacities. The brands are DA, Steyr, Mercedes Benz and fiat with carrying capacities ranging from 33,000 litres, 13,620 litres, 20,000 litres to 9050 litres respectively.

Most of the inadequate petroleum marketers use Mercedes Benz and Fiat which has low capacities as compared to DA. This is usually so because of the lack of financial resources to maintain the bigger trucks with higher capacities. These vehicle used by the independent marketers are usually not in good shape. This result in loss of pms transit and delay in delivery. Thus increasing the likelihood of pms shortages in the filling stations.

This inadequacy of appropriate delivery systems stems from the general lack of adequate financial base evident in most independent marketers of petroleum products.

Table 4.5 TYPES OF DISTRIBUTION VEHICLES AND CARRYING CAPACITY

S/NO	TYPES OF VEHICLE	CAPACITY (Litres)
1.	DA	33,000=00
2.	STEYR	13,000=00
3.	MERCEDES BENZ	20,000=00
4.	FIAT	9,080=00

SOURCE: Field work 1997

4.15 CONTRIBUTION TO SOCIO-ECONOMIC DEVELOPMENT

The survey showed that the activities of the independent marketers contribute to the socio-economic development of the country through employment, National income and such welfare programmes as scholarship for children as student and community development programmes examples include the following;

- (1) Chachangi primary/secondary school T/wada Kaduna
- (2) Rigasa built by Chachangi company LTD.
- (3) Their ability to provide the pms assisted in no small way to turning the wheel of progress.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Shell Arc discovered crude oil in Oloibiri in the Niger Delta areas in 1956. This led to the change in pattern of the nation's economy from its hitherto agricultural based to an oil dependent one. In 1971, the Federal Government established Nigerian National Corporation (NNOC) which later changed its name to Nigerian National Petroleum Corporation. The NNPC, realising that distribution of petroleum products requires huge capital investment outlay, built products distribution depots connected with network of pipelines in strategic locations all over the country and appointed major distributors. The indigenization decree of 1972 brought the independent oil marketers into the business of lifting and distributing petroleum products.

The activities of these independent marketers particularly the problem of their financial and physical incapacity as well as their unpatriotic behaviors in what this project investigates. The focus of the study is on the distribution of premium motor spirit (PMS) only by the independent marketers in Kaduna marketing zone.

The study population is consirably large. It includes 81 registered independent marketer and some staff of the NNPC. A total of 120 people from 40 independent marketers and ten NNPC staff were interriained.

Marketing of petroleum products in Nigeria is done both major and independent marketing companies e.g Mobil, African Petroleum, Total, Agip, Texaco, Unipetrol, Carbon Oil Company, Chanchangi, Oil Company e.t.c. Independent marketers operate

their filling stations themselves while the major companies operate theirs on contractual basis. The relationship between the major and independent marketers is complimentary as it appears no one category of marketers is able to reach out to the customer adequately without the support of the other, through the major oil companies are larger, with many functional department while limited departments while the independent marketer is smaller and incudes limited departments. It was also found that the number of allocations to individual marketers during a month vary form 2 to 13 with an average of 11, but reality, marketers were only able to get 3 allocations in the month thus other are adequately supplied with PMS. The marketers al;so use their own tankers which are usually of low capacity and in poor condition which leads to delay and cost of PMS in transit. It was also found that even when the independent marketers are supplied with PMS they smuggle part of it out of the country for higher profits since prices are sometimes twenty times that of Nigeria in neighboring countries.

5.2 CONCLUSION

Finally, it is concluded that independent marketers play an important rule in the distribution of petroleum products in Nigeria. However, alot has to be done in the areas of distribution, financing and patriotism on the 0part of these independent marketers to achieve their goal of marketing petroleum products available in all the nooks and corners of the country.

From the findings of this study, it became apparent that the independent marketers play on important role in the distribution of petroleum products in Nigeria. However, findings by the recent experience in the non availability of these products, alot more has

to be done in the area of distribution. The independent marketers are mostly small in size and capital which makes it difficult for them to coordinate on efficient distribution system.

These problems associated with the independent marketing of PMS are not only often unique to the industry but also to some socio-cultural factors, such as smuggling and poor and adequate allocation from the refineries. However, to get the petroleum products to energy nooks and corners of these ubiquitous independent marketers.

5.3 RECOMMENDATIONS

Based on the analysis of data available and view of the objectives of this study, and in following recommendations are here by proffered

- (1) NNPC should strike to make PMS readily available to marketers. The implication here is in two folds, first, refinery plants should operate at their install capacity, secondly, the subsidy on PMS should be removed to make the product competitive and less attractive for smuggling
- (2) Henceforth, NNPC should device ways to investigate to and find out how financially strong a marketer is before being appointed to lift PMS.
- (3) Independent marketers without a person ability to be patriotic should have their license revoked.
- (4) marketers should be encouraged to create additional retail outlets in Kaduna area.
- (5) The existing dilapidated retail outlets should be rehabilitated and equipped adequately with pumping and storage facilities.
- (6) NNPC should attend promptly to equipment failure at loading arms from which products are loaded into tankers.
- (7) There is a need for more research in this topic particularly the investment opportunities available in the petroleum industry still yet untapped ; and the effect of smuggling on the availability petroleum products.

APPENDIX I
AN APPRAISAL OF INDEPENDENT MARKETERS IN THE
DISTRIBUTION OF PETROLEUM PRODUCTS IN
KADUNA AREA

INTERVIEW SCHEDULE

1. Name of the Marketer:.....
2. Business Location:.....
3. When was this business established?.....
4. Describe briefly the nature of the business and organizational structure and type and number of personnel:.....
.....
5. Type of petroleum products:.....
6. Quantity of the product lifted
 - (a) each day.....metric litres
 - (b) each week.....metric litres
 - (c) each month.....metric litres
7. Quantity required (order size)
 - (a) each day.....metric litres
 - (b) each week.....metric litres
 - (c) each month.....metric litres
8. Frequency of lifting
 - (a) Dally.....
 - (b) Every other days.....
 - (c) Others:.....

PRODUCTS LIFTING PROGRAMME FOR APRIL 1999 PRODUCT PMS

(AKL FIGURES IN CUBIC METERS)

S/No.	Marketers	No. of Outlets	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	TOTAL							
1.	NOLCHEN																																							
2.	TOTAL																																							
3.	MOBIL																																							
4.	TEXACO																																							
5.	AGIP																																							
6.	UNIPETROL																																							
7.	A. P.																																							
8.	ELF																																							
9.	SUB-TOTAL																																							
1.	GENERAL OIL																																							
2.	ACORN																																							
3.	HAIL BROTHERS																																							
4.	MASHASHA																																							
5.	YAU KAFANCHAN																																							
6.	SUSHARA																																							
7.	YAMAN																																							
8.	SUB-TOTAL																																							
9.	LALAN																																							
10.	TAEN																																							
11.	HANSEL																																							
12.	ASIO																																							
13.	BANADEEN																																							
14.	NORTHERN																																							
15.	HITDA																																							

ALL FIGURES IN CUBIC METERS 4.1B April 1999

S/No.	Marketers	No. of Outlets	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	TOTAL	
16	SUKAIL				✓													✓															3	
17	KADA HUSA																																	2
18	ZAITUN																																	2
19	MEANS																																	3
20	DOVA																																	3
21	MAJOR OIL																																	3
22	DALTEN																																	13
23	GADAN GAYA																																	7
24	MUBECO																																	9
25	ILUOEE																																	4
26	KOFAR RUYA																																	2
27	SWANT																																	2
28	MOI																																	3
29	GOLDSTAR																																	3
30	TATICO																																	3
31	ABM SALEH																																	3
32	A.N. MOHAMMED																																	3
33	SULCO																																	3
34	SANSA																																	3
35	A.B. NIGERIA																																	2
36	SANI MAI MAI																																	5
37	A.A ZANGO																																	3
38	LAMAL NUHU																																	2
39	JAIN																																	2
40	BARBARA																																	2
41	PILOT																																	3
42	ABIN ALLAR																																	3

ALL FIGURES IN CUBIC METERS 4.1D April 1999 PRODUCTS P.M.S.

S/No.	Marketers	No. of Outlets	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	TOTAL	
70	JONALOR														✓							✓											2	
71	JIBECCO					✓										✓						✓												3
72	BULASAWA					✓											✓																	3
73	Y.M. SANI		✓																															2
74	G.S. MORIKI					✓																✓												2
75	J. INKANDA				✓										✓									✓										3
76	AUSAB							✓																	✓									2
77	SA'AB							✓																	✓									2
78	MUH DANKOGI																																	2
79	ZEN - HAJAD		✓													✓																		1
80	MERERAWA								✓																✓									2
81	MASAWANA					✓											✓																	2
82	USALO PET																																	0

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