

ISSN 2408 - - 591X

NIGERIAN JOURNAL OF
BUSINESS AND
ENTREPRENEURSHIP RESEARCH

Volume One, Number One, 2014

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The Impact of Channel Distribution on Organizational Survival: A Study of Selected SMEs in Lagos State

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Abstract

Past studies have attributed the inability of SMEs to frontier the economic development of Nigeria to lack of access to finance. However, current wisdom shows that most SMEs die within the first few years of their existence despite their access to credit. Toward this end, a detailed purposive questionnaire was administered to 200 respondents; while 155 duly completed and returned it. A Bivariate (Chi-square) method of analysis was then employed to analyse the data obtained. The study posited that SMEs should as a matter of urgency carry out the distribution function of their products so as to guaranty their continued survival and profit on the long run.

Keywords: Asian Tigers, Industrialization, Intermediaries, Distribution, Small and Medium Enterprises.

Introduction

Small and Medium Enterprises as an engine for growth and development is not new in Nigeria. Scholars over the years have traced the growth and development of the Asian tigers to the unique role of SMEs in their economy (Kadiri, 2011). They piloted their developmental efforts through the growth of their SMEs. They had the notion that "everything big started small". According to Adeleke (2013) during the first National Plan in Nigeria (1962-1968) the nation's industrialization policy was perceived predominantly in terms of large scale capital intensive industries. This policy relied largely on foreign raw materials. The industrial policy adopted failed to integrate other key sectors of the Nigerian economy. Hence, achieve the desired purpose. The fourth national plan (1981-1985) however accommodated the need to develop SMEs in Nigeria CBN (2010).

The sector apart from increasing per capita income of Nigerians and output, it is expected to create employment opportunities, enhance regional economic balance through industrial dispersal and generally promotes effective resource utilization (Kadiri, 2008). The SME sector scholars have shown

lack the financial power to achieve the desired results (Ogujuiba, 2004).

Many SMEs in the country with adequate financial power in the past have equally collapsed. Some of these firms started well with abundant financial and human resources but were seen to have seized to exist few years into their existence. Hence, adequate financial resources alone cannot be the only determining factor for the continued survival of these enterprises.

The importance of channel intermediaries cannot be under estimated particularly in the continued competitive marketing environment organizations now found ourselves. Companies sell their products to prospective customers through distribution channels. Some of these channels are owned by the distributing companies their selves while others outsource the distribution of their products to distinct firms. The life span of products has continued to decline over time. As one product is being launched in the market, countless others emerge. Hence, an organization that truly wants to remain in the industry must seek for potent means of distribution of its products whether directly or through some intermediaries' also known as

marketing channel, trade channel or distribution channel Hughes and Arhearne (2010). The right choice of an intermediary is expected to produce the desired sales and profit. It need be noted, that, beautiful ideas and innovations may not produce the desired results except the products gets to the end users (consumers) within the shortest possible time and at reasonable prices. Companies of late are often saddled with the generation of ideas that will lead into the production of goods that will outplay its substitutes and compete favourably in the market. Hence, manufacturers tend to rely on sales representatives, sales agents, brokers, wholesalers, retailers e.t.c., to distribute their products and make it assessable to the end users. Product distribution is one of the critical elements in the marketing mix. Most scholars among who is Ciaran (2011) posited that product distribution comes last after production, pricing and promotion. According to Achunba (2000), Companies nowadays are often faced with multifaceted decision. A misinterpretation and execution of these decisions particularly choice and mode of channel of distribution may result into unsold products and jeopardize the continued existence of the enterprise. The choice of distribution path no doubt is one of the decisions that must be made correctly. The nature of the product to be sold often determines the kind of distribution channel to be adopted. Developing a great product without an effective and efferent distribution channel may not lead to the desired level of sales and profitability. Does the use of internal channels of distribution influence the continued survival of the SMEs and influence their levels of profit?. This study therefore seeks to examine whether the ownership of distribution companies will lead to higher profitability than outsourcing the function to an independent marketing firm.

Review of Literature

The openings of the world into a global village have often been accepted with fixed feelings and reactions. Some scholars among who is (Jhigan, 2012) are of the opinion that this will result into the maximization of output, optimum utilization of resources as well as the optimization of consumption. The development will assist consumers to have access to variety of products thereby increasing their standard of living. This will make the entire world to become the market for all categories of goods at low prices due to competition among the producing firms (Jhigan, 2012).

It need be noted, that organizations that wants to continue to exist in the market must seek for ways of bringing their products closer to the intending consumers at the right time, quality and price. This is made possible through the channels of distribution. The channels are intermediary firms or individuals such as wholesalers, agents, brokers, or retailers who help to convey products from the producer to the consumer. A company's channel decisions directly affect other marketing decisions such as price, place and promotion of the products. Lack of the appropriate distribution channel may lead to unsold stocks thereby contributing negatively to the income as well as the profit of SMEs.

Kinds of Channels of distribution

There are various kinds of channels of distribution Kotler et al. (2006). Organization will choose the kind of channel of distribution by considering the nature of their product, the pattern of purchase, rate as well as the time when the customers will want to purchase the product. More so, the convenient place where the customers will purchase the product as well as the facilitation of the transfer of ownership to the customers. There are basically two kinds of channels of distribution of products.

a. Internal channels of distribution: This is the method of distribution often adopted by organizations who may want to operate an outlet for the sale of its products. By this method, middle men are eliminated. Distribution costs are reduced since company's sell directly to their intending customers thereby reducing the number of transactions. This is because the more the transactions (exchanges) the higher the costs associated with it. This method allows for each buyer to negotiate with the seller directly. The critiques of this method were of the opinion that it may result into inefficiency on the part of the organization to handle other aspects of the marketing mix. This they attribute to the time often spent to attend to different customers with different and diverse needs.

b. External Channels of distribution: This occurs when companies outsource the distribution of their products to another company or firm. These outside firms are known as intermediaries. They are specialists in the exchange process. The intermediaries often buy in large quantities from producers and sell to willing buyers in small quantities as well as the provision of the goods in

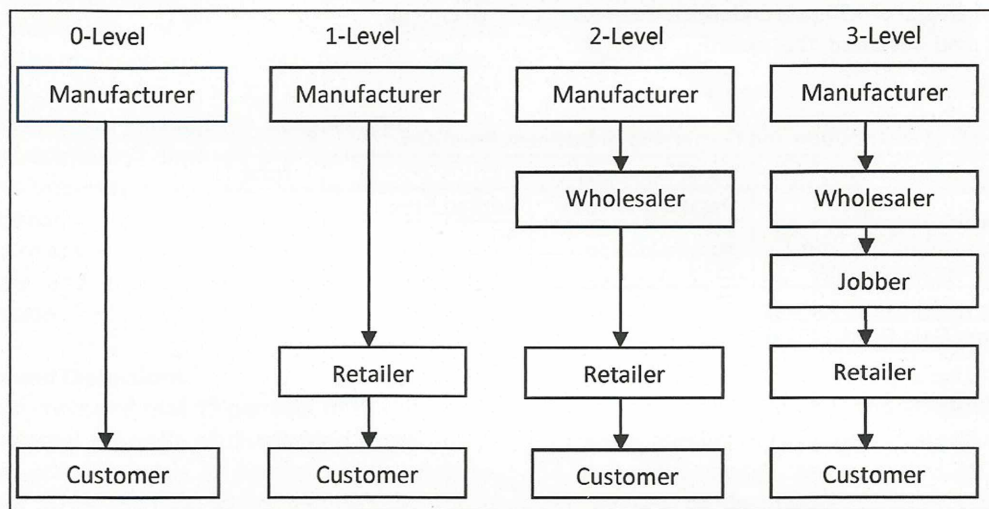
the assortments desired by the consumers. According to Smriti (2014), intermediaries provide information in two ways. First, to the consumer basic information about the product, usage, price and its efficacy and feed back to the producer concerning the comments received from the buyers. They also assist to create price stability some times in the market. This is possible particularly when the changes in price is to minimal. The middle man helps to absorb the slight changes. Also, the middle man assists in promotion of the product. They also pay in advance to the manufactures of the product thereby

assist in financing the product. This enables the producer to have access to free credit to execute the production process.

Levels of Channels of distribution

There are different levels of channels of distribution depending on the life span as well as the nature of the product. According to Coyle et al (2003), agricultural products such as tomatoes with a short life span will require no intermediary. Dito are some drugs that require direct administration and monitoring by the producers.

Figure 1: Levels of Channels of Distribution



Source: Kotler, P and Keller, K (2006). Marketing Management, Pearson Educational Prentice Hall NY

Zero level Channel of distribution:- This is a channel of distribution devoid of any intermediary between the producer as well as the consumers. Products that fall under this category are Agricultural produce with short life span as well as sophisticated products that can be used only under the direct supervision of the producer such as pharmaceutical products.

One level Channel of distribution:- This level of channel of distribution is often characterized by an Agent/Retailer serving as an intermediary between the producer and the consumer. If the products are specialty goods, the agent will often not take possession of the product but assist both the manufacturer as well as the retailer to reach a common course in terms of product price and quantity.

Two level Channel of distribution:- The wholesaler as well as the Retailer Serves as intermediaries in this level. The wholesaler often buy in large quantities from the producer and sell in small quantities to the retailer who later on sell in units to the consumer.

There levels of Channels of distribution:- Under this category, there exists three intermediaries. They are the Agents/Broker, Wholesalers and Retailers Serving as intermediaries between the producer and the consumer. Ordinarily, the Agents/Brokers do not take possession of the products. They only seek and pass information to the wholesaler who now act on it to purchase the product for onward sale to the retailer who later on sell to the final consumer.

Materials and Methods

A detailed questionnaire was administered on selected companies in Lagos State, Nigeria. The judgmental sampling technique was used to select the sample of the respondents. It is also called the purposive sample (Beri, 2008). This is so because our aim is to select SMEs that have access to business capital without impediments. In doing this, we will be able to examine other factors aside business capital that serves as impediments to the existence and survival of SMEs in Nigeria. Toward this end, a total of 200 structured-non-disguised questionnaires were administered on the respondents. This method enables the respondents to know the objects of the enquiry while the questions are arranged in a prearranged order. It revealed that a total of 155 respondents answered the questions and returned the questionnaire. Of

this number, 67 of the respondents use internal channels of distribution while a total of 88 respondents outsourced their channel of distribution.

A Total of 93 respondents rented their business premises while the remaining owned it. More so, 37 of those who owned their business premises use internal channel of distribution while the remaining outsourced their channel of distribution. As many as 63 of those who outsourced their distribution channel rented their business premises while only 30 of the category need their internal channel of distribution. Can it be said that there exist a relationship between the use of internal channel of distribution and the ownership of the business premises.

Table 1: Channels of Distribution and Ownership of Business Premises.

No of Company	No of Company		Total
	Owned premises	Rented Premises	
Using internal distribution channel	37	30	67
Outsource distribution channel	25	63	88
Total	62	93	155

Source: Authors Field Work (2014)

Using the χ^2 analyses

$$\chi^2 = \frac{\sum (O - E)^2}{E}$$

Where O indicates the observed frequency and E indicates the expected frequency (Beri, 2008). The observed frequency is directly obtained from the

$$E = \frac{\text{Row total} \times \text{Column total}}{\text{Grand total}}$$

questionnaires administered, while the following formula is used to determine the expected frequency.

Table 2: Calculation of Expected Frequencies,

No of Company	No of Company who		Total
	Owned premises	Rented Premises	
Using internal channel	$\frac{67 \times 62}{155} = 86.8$	$\frac{67 \times 93}{155} = 40.2$	67
Out sourcing channel distribution	$\frac{88 \times 62}{155} = 35.2$	$\frac{88 \times 93}{155} = 52.8$	88

Source: Authors Computation (2014)

To calculate the χ^2 , a table is to be put up as follows;

Table 3: Worksheet for calculation of Chi – Square

Row	Column	Frequency O	Frequency E	O – E	(O-E) ²	$\frac{(O-E)^2}{E}$
1	1	37	26.8	10.2	104.4	3.88
1	2	30	40.2	-10.2	104.04	2.59
2	1	25	35.2	-10.2	104.04	2.96
2	2	63	52.8	10.2	104.04	1.97
				Total		11.4

Source: Authors Computation (2014)

$$\chi^2 = \frac{\sum (O-E)^2}{E} = 3.88 + 2.59 + 2.96 + 1.97 = 11.4.$$

Since this is a 2 x 2 table, the degree of freedom is $(r - 1)(k - 1) = 1$. Hence, degree of freedom is 1. The critical (table) value of χ^2 with 1 degree of freedom at 5% level of significance is 3.841. from the above, since the calculated $\chi_c > \chi_t$, the null hypothesis that there is no relationship between the use of internal distribution channels and the ownership of business premises is rejected. We therefore accept the alternative hypothesis and conclude that there exists a relationship between ownership of business premises and the use of internal channels of distribution.

Results and Discussions

The study revealed that 55 per cent of the company using internal channels of distribution owned their business premises while 45 percent of this category rented it. Also, 25 respondents representing about 28 per cent are those that outsource their distribution channel while 71 percent of this category rented their business premises. This trend gives support to the fact that company's who owned their business premises will want to maximize the use of the space hence, develop their own internal channels of distribution. This will assist to reduce their cost of production and hence the price of their product will be competitive in the market. Therefore, their level of profit will be higher than firms outsourcing their channels of distribution. More so, a total of 93 respondents representing 60 per cent rented their business premises while 40 percent owned their business premises. This may be a pointer to the fact that ownership of business premises and the use of internal distribution channel may be a major factor to the survival of SMEs. Perhaps outsourcing channels of distribution may be

detrimental to the continued survival of a business firm.

Conclusion

Organization particularly SMEs should spend less on outsourcing of their advertisement/distribution to external companies. This will have a lot of consequence on their business capital and the future of their organization. SMEs should try as much as possible to develop internal channels of distribution particularly those that owned their business premises. This will even afford them the opportunity to carry out this function effectively and efficiently. The firm will also assist any similar company that may want to effectively and efficiently and reach a wider number of customers. This will enable them to generate enough revenue through the effective network of distribution of their products thereby maximizing their profits.

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