

Influence of Distribution Channels on Supply Chain Performance-A Case Study of the New Kenya Cooperative Creameries Eldoret

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Abstract

Successful distribution channel strategy selection, implementation, and management cannot only help to meet the shopping needs and habits of the target customers efficiently under the cost constraints of the seller; they must also mitigate the disadvantages caused by distribution channel conflicts such as double marginalization. Customer needs analysis plays a relatively small role in product development in these firms. Instead, product development is typically driven by process technology capabilities which often are the result of incremental process improvements. Unlike market-driven firms, where a focus on value drives marketing decision making, marketing decisions in these firms often revolve around pricing issues, such as volume discounts, as the key to increasing the firm's unit sales. The purpose of the study was analyse influence of distribution channels on supply chain performance: New KCC Eldoret. The specific objective of the study was to evaluate the effect of product efficiency on supply chain performance in the New KCC. The research employed descriptive research design. The study involved 84 employees from various departments in the company. Data was collected through self-administered questionnaires that consist of both open and closed ended questions. The data was analyzed using both descriptive statistics and inferential statistics. The findings indicated as significant relationship between the product efficiency 0.010. The study concluded that distribution channels have a significant impact on supply chain performance. For any organization to be effective there should be effective distribution management process to convey finished products from the manufacturer to the final consumers. The study recommended that organizations should involve themselves in the correct distribution channels; in order to meet their organizational objectives of being efficient in provision of the products, customer satisfaction should be considered in order to enhance supply chain performance in manufacturing companies.

Keywords: Product Efficient, Distribution.

1.1 Introduction

Distribution refers to the transfer of a goods from one business to another. It can be factory to supplier, supplier to retailer, or retailer to end customer. It is defined as a chain of intermediaries; each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or the 'channel.' Each of the elements in these chains will have their own specific needs, which the producer must take into account, along with those of the all-important end-user (Alene, 2008).

Global supply chain management has tremendously gained importance since the past decades due to the global competitive business environment. Christopher et al. (2006) stress on the need of supply chain design for global operations and they argue that the choice of supply chain strategy impacts competitive performance. The internationalization or globalization¹ of supply chains has increased foreign competition in the countries' local markets. For this reason, companies must make quick and wise decisions at strategic and operational levels (Msimangira, 2003) regarding the procurement of goods and services globally in order to minimize the extent of procurement risks or problems. Procurement firms establish relationships networks with their key suppliers when they perceive supply risks (Cheng et al., 2012). Their study on supply risk management via relational approach in the Chinese business context reveals that improved communication and supplier trust are positively related to supplier performance (Cheng et al., 2012), Sun et al. (2012) and emphasized that in order to "mitigate quality risks, supply chain members are coordinated by sharing their information" (p. 58). This result supports Banomyong & Childerhouse (2010) on integration of the global supply chain.

Supply chain management (SCM) has received in recent years a great deal of attention by researchers and practitioners. Effective SCM will lead to a lowering of the total amount of resources required to provide the necessary level of customer service to a specific segment and improving customer service through increased product availability and reduced order cycle time (Banomyong & Supatn, 2011); engage in information exchange (forecasting techniques, inventory management, delivery) and structural collaboration (just-in-time system, outsourcing, vendor-managed inventory and co-locating plants) relationships with downstream supply chain partners to create end-customer value and maximize benefits and minimize costs along the supply chain. Thus, the nature of SCM becomes visible to participating companies with successful implementation in the ever

changing global environment of the business world, risks abound and it greatly affects the decision making processes of the business management.

According to Jain, Wadhwa and Elzo, (2010), a supply chain is a dynamic process and involves the constant flow of information, materials, and funds across multiple functional areas both within and between chain members. Members in the chain need to cooperate with their business partners in order to meet customer's needs and to maximize their profit. However, it is a very difficult task in managing the multiple collaborations in a supply chain because there are so many firms involved in the supply chain operations with its own resources and objectives. The interdependence of multistage processes also requires real-time operation and decision making across different tasks, functional areas, and organizational boundaries in order to deal with problems and uncertainties. The strategic move of focus for mass customization, quick response, and high quality service cannot be achieved without more complex cooperation and dynamic structure of supply chains.

Supply Chain Management according to Greene, (2002), is the function within and outside a company that enables the value chain to make products and provide services to the customer. It is the network of entities through which material flows. Those entities may include suppliers, carriers, manufacturing sites, distribution centers, retailers, and customers. Supply Chain Management coordinates and integrates all these activities into a seamless process. Jari, (2009) say, the ultimate goal of strategy is "long-term, sustainable superior performance." Such superior performance depends on the ability of an organization to become a fully integrated partner in a supply chain (Cooper, 2007), this requires that organizations adopt a supply chain strategy that focuses on how both internal and external business processes are integrated and coordinated throughout the supply chain to better serve ultimate customers and consumers while enhancing the performance of the individual supply chain members. Examples of business processes that must be integrated include manufacturing, purchasing, selling, logistics, and the delivery of real-time, seamless information to all supply chain partners.

Managing at the level of a supply chain requires a new focus and new ways of thinking as pointed out by Sikawa, (2010). Managers must learn to communicate, coordinate, and cooperate with supply chain partners. Staal, (2005) describe supply chain management as a "strategic level concept." Supply Chain Management (SCM) as having three core elements: value creation, integration of key business processes and collaboration. Based on this conceptualization, they define SCM as "the philosophy of management that involves the management and integration of a set of selected key business processes from end user through original suppliers that provides products, services, and information that add value for customers and other stakeholders through the collaborative efforts of supply chain members."

1.1.1 Link between Supply Chain Management and Performance

The business performance of a company is defined by business outcomes supported by truncation metrics from SCM events or actions such as outsourcing. This paper will focus on the operational performance within the New KCC business. Operational performance will focus not only on the successful integration of internal business processes and strategic alignment of internal functions within New KCC, but also through the integration and alignment of inter-company processes in the telecommunications industry. SCM requires a change from managing individual functions to integrating activities into key supply chain processes. Shared information between supply chain partners can only be fully leveraged through process integration. Process integration is a term used in chemical engineering which means a holistic approach to process design which considers the interactions between different unit operations from the outset, rather than optimizing them separately. Smith (2005) calls this integrated process design or process synproject. An important first step is often product design according to Cussler and Moggridge (2003) which develops the specification for the product to fulfill its required purpose. Process integration links the different components within and outside the organization that links the supply chain to the performance of that organization.

Supply chain business process integration involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. According to Lambert and Cooper (2000), operating an integrated supply chain requires continuous information flow with the end result of the information flow being measuring and reacting to performance. However, in many companies, management has reached the conclusion that optimizing the product flows cannot be accomplished without implementing a process approach to the business. The key supply chain processes stated by Stevenson, (2006) are: Customer relationship management, Customer service management, Demand management, Order fulfillment, Manufacturing flow management, Supplier relationship management, Product development and commercialization and returns management

Experts found a strong relationship from the largest arcs of supplier and customer integration to market share and profitability and overall business performance. By taking advantage of supplier capabilities and emphasizing a long-term supply chain perspective in customer relationships, SCM can be correlated with a firm's performance. A.T. Kearney Consultants (1985) noted that firms engaging in comprehensive performance measurement realized improvements in overall productivity. The internal measures generally collected and analyzed by the firms include: Cost, Customer Service, Productivity measures, Asset measurement and Quality.

External performance measurement is examined through customer perception measures and benchmarking.

Supply chain performance is a rapidly developing area of research. Many companies are trying to find tools for enhancing performance measures in response to turbulent business markets and for efficiently controlling their business activities. Ideally, the market performance of the KCC has recorded a tremendous decline in the recent past. Since its rebranding to New KCC and the introduction of distribution channels, a change has since been noticed.

2.0 Product efficiency and Supply Chain performance

The current business environment is very different from the past and the competition has a special role (Gilaninia & et al,2011). New forms of structural reforms, competitive and exchange process causes communication paradigm for the long-term relationships between buyers and suppliers (Seyedi, Moosavi, Heidari, 2009). Activities such as supply and demand planning, material preparation, production and product planning, product service, maintenance and inventory control, distribution, delivery, customer service which used to be performed by company, now it has be done by the supply chain. A key issue in the supply chain management is to control and coordinate all these activities. Supply chain management is a phenomenon that provides the fast and reliable service with high quality and lowest cost to customers (Maboodi, Javanshir, Rashidi, Valipour, 2010).

The customer is who the organization is willing to affect his behavior by the values that are created. Customer satisfaction is an important issue which is related to compete in global level. Edward Deming believes that the quality is associated to customer satisfaction. Therefore, this can be as an indicator of the effectiveness of customer satisfaction. Rap defined the customer satisfaction as a personal approach of the comparison between actual productivity and efficiency expected of a company (Dehmorde, Shahraki, Lakzae, 2010).

Customer is a person who organization is willing effect on her/his behavior with creates worth. Customer satisfaction is defined as customer's feelings or attitude towards a product or service after use. Customer satisfaction leads to the increase of income and profits through repeat purchase, the purchase of new goods and the purchase of goods by customers who have been encouraged by satisfied customer. Customers who have high satisfaction of organization give positive experiences to others, and thus they ad for the organization, as a result, reduce the cost which is spend to attract customers (Kavandi, Shakeri, 2010).

The supply chain management practices are viewed to be related to supplychain responsiveness which will increase supply chain competitive advantage and then lead to organizationalperformance (Sukati, Hamid, Baharun & Huam, 2011). The effective supply chain management practices willreduce costs, boost revenues, increase customer satisfaction, and also improve service delivery (Baltacioglu, Ada,Kaplan, Yurt & Kaplan, 2007).

Frederick Ross (1998, pp280) stated that organizations have to understand the needs of the customers first, as well as the high-quality processes that are capable of continuously delivering value-added solutions to the marketplace. Nisel (2001) agreed that the importance of satisfying consumer needs is the vital goal for business success. In addition to this, that the supply chain management term has been used for almost 20 years and has been defined as the integration of activities that procures materials, transforms them into intermediate goods and final products, before delivering them to customers. The point of firms that bring products or services to the market has been called the supply chain (Heizer and Render, 2001).

Lee and Amaral (2002) supposed a "right supply chain" aims to perform well on both their costs and services, from an operational viewpoint. Zairi (1999) suggested that supply chain management consists of value-adding and optimization in the use of all available resources, materials, people, technology, and information for the benefit of the end customer. Supply chain management focuses on lowering costs and delivering a high volume of the defined services (Stonebraker; Liao; 2004, pp1041). As Chopra and Meindl (2004) recognized the effort the supply chain expends in filling out the customer's request. The objective of a supply chain is to maximise the overall value generated, such as faster delivery, improved quality or reduced costs, with the primary purpose for the reality of any supply chain being to satisfy customer needs.

According to Omiti, (2009), organizational performance is the valued productive output of a system in the form of goods or services. Organizational performance can be subdivided into three categories: financial performance (profit), internal non-financial performance (productivity) and external non-financial performance (e.g., customer satisfaction). Private sector organizations strive for good financial results whereas public organizations are aimed at non-financial aims like delivering good public services to citizens (Papzan, 2009). To achieve performance through employees, the organization must consider them as asset and must be treated with attention so that the employees become productive. Gone are the days where an employee was given single task. Today's business environment demands people having multi skills so that they can be placed as per the need of the hour. Hence individual motivation, job design, job structure, individual competence, and appropriateness of performance goals and standards of measurement are considered important and are more directly and easily controllable.

3.0 METHODOLOGY

The study adopted a descriptive research design which was analytical in nature. The target population was departmental employees of the company. This was limited to procurement, sales and finance departments. The study involved 84 employees from various departments in the company. Due to the small population, the study employed census. Data was collected through self-administered questionnaires that consist of both open and closed ended questions. The data was analyzed using both descriptive statistics and inferential statistics.

4.0 Discussion

The findings in Table 4.1 below indicated that 73percent of the respondents strongly agreed that product efficiency ensures that products are available at all times, 23percent agreed, 3percent were undecided and another 3percent disagreed on this statement. Also in table 4.1 below, 50percent of the respondents strongly agreed that distribution channels allows direct contact between producers and consumers hence breaking the bulk, 45percent agreed, 1 percent were undecided while 3percent disagreed and another 1% strongly disagreed.

The results in table 4.1 indicated that 55 percent of the respondents strongly agreed that product efficiency ensures a variety of products are available in one location, 35percent agreed, while 7 percent were undecided and 2percent disagreed and another 1% strongly disagreed.

In Table 4.1, the study also indicated that 43percent of the respondents strongly agreed that it ensures cost of goods are not inflated due to poor channel choice involving many agents, 33percent agreed on this statement, while 15percent, 2percent and 8percent were undecided, disagreed and strongly disagreed respectively.

Majority of the respondents strongly agreed that products are available all times as required by its customers. Therefore the findings were interpreted to mean that the product efficiency will largely depend on the source quality. The way a supplier lays its foundation in regard to the quality of its products will predict the future fate of performance thus firms need to consider their product efficacy in order to enhance customer satisfaction hence improved supply chain performance.

According to Abrahamson (2004) inadequate satisfaction of customers may lead to lack of payment and overall commitment in organizations. Strong and reliable products must be in place to provide the necessary support to move the firm to the next level. Positive attitudes, knowledge and skills on supply chain need to be in place especially within the firm to initiate, implement and sustain growth.

The researcher wanted to get information regarding the effect of product efficiency on supply chain performance. The findings were then presented in the table below:

Table 4.1 Product Efficiency

Statements	Descriptive	SA%	A%	UD%	D%	SD%	Total	Mean
Ensures that products are available at all times	Percentage	73	23	3	3	0	100	4.77 95%
Distribution channels allows direct contact between producers and consumers hence breaking the bulk	Percentage	50	45	1	3	1	100	4.37 87%
Ensures a variety of products are available in one location	Percentage	55	35	7	2	1	100	4.37 86%
Ensures cost of goods are not inflated due to poor channel choice involving many agents	Percentage	43	33	15	2	8	100	3.70 74%

4.2 Relationship between product efficiency and supply chain performance

The Chi-square test at $p \leq 0.05$ significance level illustrating statistically significant relationship between product efficiency and supply chain performance as summarized in Table 4.2. Therefore, Table 4.2 presents the Chi-square test that was conducted to find out the influence of the product efficiency on supply chain performance.

Table 4.2: Chi-square test for Relationship between product efficiency and supply chain performance

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	123.282 ^a	48	.000
Likelihood Ratio	49.459	48	.415
Linear-by-Linear Association	11.384	1	.001
N of Valid Cases	80		

a. 59 cells (93.7percent) have expected count less than 5. The minimum expected count is .01.

From the results in Table 4.2, the P-value for the Pearson Chi-Square test for relationship between product efficiency and supply chain performance is 0.000. The p-value ($p=0.000$) is less than 0.05, therefore, showing a statistically significant relationship between relationship between product efficiency and supply chain performance. Since the p-value is less than 0.05, it means that there is a significant relationship between relationship between product efficiency and supply chain performance.

5.0 Conclusion and Recommendation

Results from the findings on product efficiency, indicated that distribution channels ensures that products are available all through to their consumers , they further noted that distribution channels allows direct contact between producers and consumers hence breaking the bulk. Therefore distribution channels ensure product efficiency hence supply chain performance. This was further confirmed by chi-tests which indicated a significant relationship between product efficiency and supply chain performance.

In conclusion it was indicated that product availability influences supply chain performance, from the findings, product availability is reported to ensure customers get their products in time, products are being delivered to the right location in the right sizes and quantities thus supply chain performance being enhanced. Customer satisfaction through product efficiency should be considered in order to enhance supply chain performance in manufacturing companies. This is recommended according to Clark (2003) who notes that efficiency is an important measure of a company's performance. Unlike productivity, which a company achieves by maximizing the number of units produced in a given time frame, efficiency requires the minimization of costs and the maximization profits for a given level of output. Efficiency, therefore, enables a business to make the best possible use of the company's resources. For example, an efficient company will produce a greater number of quality products, with less waste, using less energy and other resources during a given period than an inefficient company.

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451

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