

DECA TIP SHEET

DISTRIBUTION (shipping and receiving)

Manufacturer – Agents/Brokers – Wholesalers - Retailers – Consumers

Each middleman performs a service in the distribution process. Consequently, the price usually increases with the involvement of each step. Many businesses have attempted to eliminate the middleman (farmers, Dell, and infomercials). Others have attempted to reduce shipping and handling such as Sam's, Wal-Mart, and Costco. Almost all businesses would like to reduce their costs by becoming more efficient in the marketplace.

Technology has taken a major role in the distribution process through computerized ordering, bar codes, and scanners at the registers through point of sale cash registers.

Legal considerations play a role in determining who owns the goods during the shipping process. Pricing and monopolies are other legal issues that have invoked laws such as the Sherman Antitrust Act and the Robinson-Patman Act. Contracts such as purchase orders are also legal issues.

Ethical issues in distribution involve honesty in shipping and receiving, damaged goods, and competing with your customers or providers (such as establishing your own trucking company or selling direct to consumers that some of your customers are targeting).

Processing Orders

Most orders are initiated with a purchase order to form a legal contract between the buyer and seller. The P.O. addresses price, quantities, and shipping terms. The packing slip is attached to the box(es) and details what is inside each box. The packing slip does not mention prices. An invoice (bill) is usually mailed to the purchaser to request payment. The invoice will address an itemized statement, shipping charges, and terms (2/10, n/30).

When the merchandise is received at your store (via truck, rail, etc.) it must be checked in to ensure accuracy between what was ordered and what was received. A receiving record (a record of what was received, by whom, and date of delivery) is often kept to track incoming deliveries. Merchandise (boxes) must be counted and compared to the packing slip, purchase order, or invoice. The receiver must also determine if any of the merchandise is damaged or missing. Any damaged goods should be returned to the seller who will then issue a credit memorandum to the purchaser to denote that the buyer's account will be credited. Some businesses will only accept deliveries on certain days or hours. A discrepancy report should be completed if there is a difference between what was ordered and what was received.

Pricing Products

Before products can be moved to the sales floor they should be priced. Today most products arrive with a UPC (Universal Product Code), which allows a business to price the product and to control inventory. The UPC (sometimes called a bar code) is scanned at the cash register to complete the sale. Prices can be changed easily by adjusting pricing information stored in the computers UPC's code. This saves the retailer much time and energy while ensuring accuracy. Many retailers (Wal-Mart, Toys R Us) refuse to buy from vendors unless they have bar codes on their products. Today, because of the cost of retail space, many retailers attempt to limit the size of storage areas for inventory. They prefer to put the majority of their products on the sales floor. Bar codes also allow businesses to track their inventory, which in turn, provides an automatic reorder of products to ensure that they will never be out of stock.

Shipping

Businesses must determine what means of shipping is best for the situation. Rail, truck, air, and ship all provide advantages and disadvantages. One must evaluate costs, time, reputation, and convenience when selecting a shipper. Most boxes also have a UPC to track the order that allows a business to determine a detailed report for an exact delivery time and date. Each shipper will present a bill of lading to the receiving party that details what and how many boxes are involved in the order. Shipping costs are pre-determined and can often be negotiated. FOB (free on board) determines who will pay the freight. The term following FOB, such as FOB destination, will state that the freight is paid to the final destination. Conversely, FOB factory means the freight must be paid by the business ordering the goods from the factory to the final destination.

Inventory Control

Managing and controlling inventory can be critical to the success of a business. Most businesses would like to maintain lower levels of inventory so they do not dedicate too much money to have products sitting in a storage area. Consequently, most businesses utilize a perpetual inventory control system. Perpetual inventory keeps track of sales as they occur and provides the business with the information so they will know when and how much to reorder. A physical inventory system involves the actual counting of merchandise. A physical inventory is usually matched against the perpetual inventory to determine any shrinkage issues such as pilferage, shoplifting, cash register errors, damaged products, misplaced items, etc.

Vocabulary

Agent/broker – arranges for both a buyer and seller; they do not own the goods or services they sell.

Wholesaler – often buys from the manufacturer and sells to the retailer.

Retailer - sells to the ultimate consumer.

Consumer - individual who uses the product or service.

Channel of distribution – the path a product takes in getting from the producer to the consumer.

Sherman Anti-Trust Act – a law to prevent illegal monopolies.

Robinson-Patman Act – a law to prevent price discrimination.

Purchase Order- a legal contract between the buyer and seller that specifies the terms of the agreement.

Invoice - a bill for payment.

Packing Slip - attached to the box or container that specifies what is inside the box.

Bill of lading - shipping order given to the receiver (usually the retailer) that specifies how many boxes are being delivered.

Discrepancy report - a written document that is completed by the receiving party that specifies what is missing or damaged with the delivery.

Credit memorandum - granting credit to the purchaser (usually the retailer) for lost, damaged, or missing items during the shipping process.

FOB, factory – retailer pays the freight.

FOB, destination – factory pay the freight.

UPC – universal product code; provides information relating to price, inventory, shipping, product description, etc.

Physical inventory – the act of an employee(s) counting the inventory.

Perpetual inventory – inventory control that is tracked through a computerized cash register system (POS – point of sale).

Stock turnover – the number of times you have to replace your inventory during the year; expressed as a whole number. The goal of every business is to increase stock turnover.

LIFO – inventory system; last in first out.

FIFO – inventory system; first in first out.

Open to Buy - a budget to purchase new stock or inventory.

2/10, N/30 – 2% discount if the invoice is paid within 10 days. The entire bill is due within 30 days.

2/10,N/30, ROG – the invoice terms begin when the goods are received; ROG (receipt of goods).

2/10,N30, EOM – the invoice terms begin at the **end of the month**.

Possible Role-Play Activities

Teaching a new employee how to receive and stock new items that are received at the store.

Suggesting new policies to help smooth the shipping and receiving process.

Teaching and explaining terms relating to the shipping and receiving process.