EFFECTIVE DISTRIBUTION MANAGEMENT, A PRE-REQUISITE FOR RETAIL OPERATIONS: A CASE OF POKU TRADING

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ABSTRACT: Distribution plays a key role within the marketing mix, and the key to success is its successful integration within the mix, ensuring that customers get their products at the right place and at the right time. If the product cannot reach its chosen destination at the appropriate time, then it can erode competitive advantage and customer retention. The purpose of this paper is to explore the best distribution strategy and other factors that help the organization meet customer expectations in respect of delivery and service promises the organization might make. The paper was qualitative and empirical data were collected through questionnaire and in-depth interview. SPSS was used in analyzing the data gathered from the sample (105 respondents). The study revealed that the best distribution strategy depends on the target market and the operational environment. It also indicated that the emergence and explosion of the internet and other information communication technologies has greatly affected distribution. The study concludes that effective distribution requires a high degree of management skill, synchronization and integration with the overall organization, as it will be one of the major components in achieving a sustainable competitive advantage.

KEYWORDS: Distribution Channel, Intensive, Selective, Exclusive, Strategy, Manufacturer, Consumer

INTRODUCTION

For any organization to be effective there should be effective distribution management process to convey finished products from the manufacturer to the final consumers. This is because without distribution the best product will not be delivered and the marketing mix will break down and fail. As a result of this, firms are increasingly adopting supply chain management to reduce cost, increase market share and sales, and build solid customer relations (Ferguson 2000). Supply chain management can be viewed as a philosophy based on the belief that each firm in

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the supply chain directly and indirectly affects the performance of all the other supply chain members, as well as ultimately, overall supply chain performance (Cooper et al, 1997). The effective use of this philosophy requires that functional and supply-chain partner activities are aligned with company strategy and harmonized with organizational structure, processes, culture, incentive and people (Abell 1999).

Distribution channel consists of a group of individuals or organizations that assist in getting the product to the right place at the right time. Distribution plays a vital role, primarily because it ultimately affects the sales turnover and profit margins of the organization. If the product cannot reach its chosen destination at the appropriate time, then it can erode competitive advantage and customer retention.

The retail industry is responsible for the distribution of finished products to the consumer as well as the public. The retail sector comprises of general retailers (managed by individuals/families), departmental stores, specialty stores and discount stores. In practice, many organizations use a mix of different channels; in particular, they may complement a direct salesforce, calling on the larger accounts, with agents, covering the smaller customers and prospects. However, the major challenge now facing the retail industry is the power of the customers or buyers. This is because the customers are becoming increasingly knowledgeable, impatient, not wishing to wait for the suppliers' products for any period of time. This coupled with the fact that firms are now trying to implement specific distribution strategy or practices based upon their unique set of competitive priorities and business conditions to achieve the desired level of performance, has led to an investigation into the various distribution strategies and practices available with the view to establish the strategy or practice which has the most influence on retail performance in Ghana.

The purpose of this exploratory study is to investigate the relationship between distribution strategy and practice and retail performance in the Fast Moving Consumer Goods in Ghana using Poku Trading as a case. To do this, the paper is divided into five sections. This introduction is followed by the review of related literature. Research method and data analysis follow the literature review. The last section of the paper looks at conclusion and recommendation.

LITERATURE REVIEW

Theoretical Framework

Most producers use intermediaries to bring their products to market. They use a set of interdependent organizations in the process of making a product or service available for use or consumption by the consumer or business user. This process is what has been known as distribution channel (Philip Kotler 2001).

Weiss and Gershon (2002) noted that, distribution describes all the logistics involved in delivering a company's products or services to the right place, at the right time, for the lowest cost. In the unending efforts to realize these goals, the channel of distribution selected by a business play a vital role in this process. Well-chosen channel constitute a significant competitive advantage, while poorly conceived or chosen channel can doom even a superior

product or service to failure in the market. Effective distribution provides customers with **convenience** in the form of availability (what, where, when - the right product, at the right place, at the right time), **access** (customers' awareness of the availability and authorization to purchase), and **support** (e.g. pre-sales advice, sales promotion and merchandising, post-service repairs).

The Distribution Channel and the Customer

There are many variations in respect of the distribution channel structure however, intermediaries be deemed as appropriate in the business environment, the following channel structures would be available to you:

- 1. Passing of goods and services direct from the manufacturer to the consumer
- 2. Passing of goods and services via a retailer and then on to a consumer
- 3. Passing of goods and services from the manufacturer via a wholesaler and then directly on to the consumer
- 4. Passing of goods and services from manufacturer via a wholesaler, then on the retailer and consequently on to the consumer
- 5. Additionally, the manufacturer can distribute the products and services via an agent to a wholesaler and then follow the route shown in points 3 and 4.Quite often the types of channels of distribution used by organizations will depend upon
- 6. the structures of the market, the size of the market, the complexity of the market and the geographical dispersion of the market, among the factors.

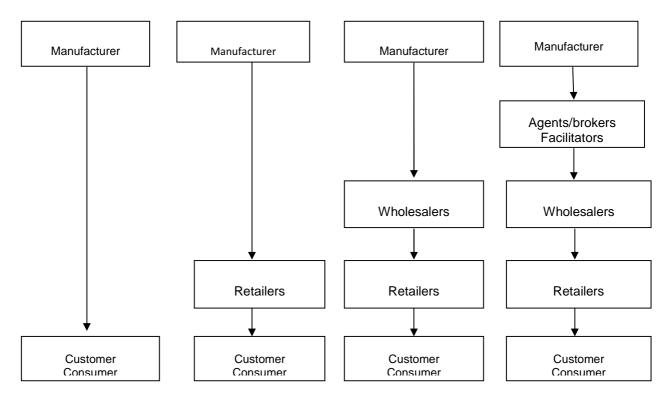


Figure 1.0 A typical range of channels of distribution adapted from Armstrong and Kotler (2010)

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Selecting the channels of distribution

For manufacturer to select a channel, they must consider the following:

- The product characteristics and how they affect methods of distribution
- Customers and their requirements
- Location of the customers
- How, when and where customers want to buy the products
- The cost of distribution
- The legal and regulatory constraints of the distribution

These are important issues and require significant levels of analysis in order to gain an understanding of the situation. Clearly some of these issues will form the basis of the marketing audit. Ideally the marketing mix has a clear focus on achieving customer satisfaction and achieving the profit objectives of the organization.

Supermarkets have moved away from just supplying food-based products to include fashions, music, electrical goods, cosmetics, etc. All of this is focused on meeting all of the above distribution factors. There are two perspectives of intermediary selection, the strategic perspective and the operational perspective: strategic in relation to looking at the 'bigger picture' and 'operational' looking at the ability to implement the strategic marketing plan and distribution strategy.(Armstrong& Kotler 2010)

Channel strategy

There are three types of market coverage:

- 1. Intensive
- 2. Selective
- 3. Exclusive

Intensive distribution means that as may available outlets as possible hold this product, e.g. chocolate, newspapers, bread, etc. Intensive distribution will mean convenience to the customer and increase customer satisfaction. The sale of groceries in petrol and service stations is an example of how intensive distribution has grown (Bowersox eta'l 1986).

Key characteristics include:

- Maximum number of outlets covered to maximize availability
- Target outlets in as many as geographical regions as possible
- Consumer convenience products
- High number of purchasers
- High purchase frequency
- Impulsive purchase
- Low price

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Selective distribution is different in that some products are only available from some outlets, e.g. electrical appliances, certain brands of clothes and fashion products.

Key characteristics include:

- Medium level of customers but likely to be significant
- Less intensive distribution of outlets
- Retailers may require specialist knowledge
- Shopping based products
- Medium number of shoppers
- Purchase is occasional
- Purchase is more likely to be planned
- Medium price

Exclusive distribution is where possibly only one outlet in a certain geographic area supplies a product. This method of distribution usually relates to specialty products, e.g. special cars, specialist clothing, etc. often exclusive distribution is relevant to niche products.

Key characteristics include:

- Relatively few customers
- Limited retail outlets
- Close retailer/customer relationship
- Special products
- Infrequent purchase
- High involvement and planned purchase
- High price

Channel decisions

There are six basic channel decisions to make. These are:

1. Whether to distribute direct to the customer or indirectly through middlemen

The advantages of going direct are that it enables firms to exercise more control over marketing activities and it reduces the amount of time spent in the channel. The disadvantages are that it is difficult to obtain widespread distribution and more resources are required to maintain distribution. Going direct is the method widely used by industrial goods producers. In the case of consumer goods, examples of going direct to the customer are to be found in marketing cosmetics and encyclopedias. (Proctor 2001a)

2. Whether to adopt single or multiple channels of distribution

The advantages of using a single channel are that it guarantees a minimum level of sales and the exclusivity of using a single channel guarantees attention to the product. In the first case, intermediaries can be asked to accept a minimum non-returnable order quantity. In the second case, the fact that a product is only available from very specific outlets suggests that it is difficult to obtain because it is exclusive. The harder it is to get, the more people will want to know about

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it—or so the argument goes. On the other hand, the disadvantage of using exclusivity is that it does limit sales. (Proctor 2001b)

In contrast, the use of multiple channels should lead to increased sales and a potential for wider distribution. It must be argued that the more establishments put the product on view, the more likely it is that sales will be substantial. Restricting the number of channels through which the product is sold, restricts the number of people who can come into contact with the product. On the other hand, there are disadvantages with using multiple channels. First, greater investment, more sales people in the field, more marketing effort in general and more administration are required.

(Proctor2001 c)

3. How long the channel of distribution should be?

In determining the best channel length to adopt, the following factors have to be taken into account:

- (a) The financial strength of the producer—those in a strong position can carry out the functions provided by intermediaries.
- (b) Size and completeness of the product line—the costs of carrying out the distribution function can be spread across the various items in the product line. The more items, the more economical it might be to consider a shorter distribution channel.
- (c) The average order size—large orders may be distributed direct to customers.
- (d) The geographical concentration of customers—geographically dispersed customers merit a longer distribution channel since servicing them requires substantial investment of resources.
- (e) The distance of the distributor from the market—geographical distance makes it less attractive for the producer to want to supply direct.
 (Ballou 1992)

The above are guidelines and of course exceptions may be encountered in practice.

4. The types of intermediaries to use.

This effectively means choosing between different types of retailer in the case of consumer goods, e.g. supermarkets as opposed to cash and carry, and different types of distributor in the case of industrial goods, e.g. whether to use franchised dealerships or not.

5. The number of distributors to use at each level.

In principle, more distributors are required if:

- (a) The unit value of the product is low and/or the physical quantity of stock held is likely to be high.
- (b) The product is purchased frequently.
- (c) There is a high degree of technological complexity in the product.
- (d) The service requirement is high.
- (e) The inventory investment is high.
- (f) Geographic concentration is low.
- (g) Total market potential is high.
- (h) The market share of the producer is high.
- (i) Competition is intense(Goddard 1982)

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6. Which intermediaries to use

This is a qualitative decision and reflects whether the image of the particular outlet, the way in which it performs and the deals which can be struck with the distributor are satisfactory. It may mean choosing C&A rather than Marks and Spencer, or Tesco rather than Finefare. Even when strategies have been selected they have to be implemented and this involves producers and intermediaries working together in the most effective manner. (Proctor 2001d)

Physical distribution management (PDM)

Physical distribution management (PDM) is the term used to describe the management of every part of the distribution process. PDM can be contracted out to a specialist or is best developed as a specialist function within the organization. It is the process which ensure that the correct customer within a given timescale, as cost-effectively as possible (Little and Marandi 2003).

Part of PDM would include being aware of what your competitors are offering, as suggested above. Elements for consideration would include:

- Costs involved
- Methods of transport road, rail, plane, shipping, etc.
- Routes used
- Stock, storage and stock control
- Protection and delivery of stock
- Timing a key element
- Evaluating the effectiveness of methods of distribution and being aware of other alternatives.

Distribution is an integral part of the marketing mix. With the right distribution strategy in place that is with the right mode of delivery the right speed of delivery to the appropriate place of purchase, customer satisfaction can be significantly increased. Failure to deliver these practical points will result in the loss of orders and income to the company and long-term customer loyalty will decline (Drummond and Ensor 2001)

The key objective of PDM is to find the most cost-effective way of meeting customer needs in relation to purchasing their product, whoever they are and wherever they are.

Physical distribution management includes the following functions:

- Customer services
- Order processing
- Materials handling
- Warehousing
- Stock/inventory management
- Transportation

The key success factors of physical distribution management include all elements of the marketing mix:

- Product characteristics how do they affect delivery requirements?
- Packaging can the product be transported?

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- Pricing how much does distribution add to the cost of the product?
- Promotional campaigns creating an awareness of the product and where and how it can be purchased.
- Timing is a critical element of PDM, as many co
- Companies work on the delivery of materials and components on a 'Just in Time' basis (JIT). JIT is just as it sounds; it means that the manufacturer of products, or the supplier of raw materials, must deliver the necessary material or components as and when required. For example, a window manufacturer, who makes windows for office buildings, will be making windows to order and will be require to deliver them at certain periodic times in the construction of the building. Because storing glass and the metal or plastic structures is difficult, the organization will deliver as and when the office block construction company needs it.

The concept of JIT was developed to encourage maximized efficiency of manufacturing. The process will reduce the storage space requirements, which is a direct cost saving to the organization, but it also means that the organization will only pay for the materials when they have taken delivery of them, rather than in a bulk order at the beginning of the contract. Both save significant amounts of money, which means that the cost saving can be passed onto the customer, making products cheaper to purchase.

JIT is much linked to qualify applications and improvements. Should the organization take a mass delivery of a component, and leave stock standing around, it could be damaged or problems with the delivery may not be discovered until it is too late. Therefore, quality assurance controls and measures can be implemented as the components are dispatched which then aids the quality improvement process. This then enables organization to work towards zero defects, which means zero wastage of time and material, which means cost effectiveness and quality improvement and ultimately a higher level of customer satisfaction.

Within the retail sector, JIT plays the same sort of role. You will note that retail outlets very rarely run out of standards of stock products, because they have good stock control processes and systems that enable JIT delivery of those stock items (Joan Feldman 1984).

Most retailers now work with electronic point of sale system (EPOS). EPOS registers your purchase at the point of sale, i.e. the payment checkout. The product is scanned into the computer as sold and the computer automatically registers this as a stock reduction. When the stock reduction reaches a certain minimum level, the computer automatically generates a message to place a stock order for that particular product to be in store by a certain delivery date. The EPOS system allows retailers to monitor frequency of purchase of certain products, which then enables them to forecast demand of their stock products. This in turn helps them plan for their stock requirement and come to appropriate agreements with their suppliers on delivery and storage requirements (Jobber 2001)

RESEARCH METHODOLOGY

The research was inductive rather than standard quantitative survey (deductive). This is due to the fact that the research seeks to build theory rather than theory testing. In as much as this study aims at exploring the best distribution strategy and its impact on competitiveness, its success depends on perceptions of social actors within the stated specific context, that is, upon how managers, customers and employees perceive the concept of distribution management.. Following grounded theory tradition, the research started by explaining the methodology and research perspective (Locke, 2000). The knowledge gained was then discussed in the context of the literature. A review was conducted of the existing literature, including how physical distribution management affects retail operations (Ambler, 2003; Feldwick, 2002; Keller, 2003). Questionnaire and interviews were used to collect all the necessary data from the management, customers and employees of Opku Trading. These respondents were chosen because they are well positioned to provide the needed data for the research. They were selected by virtue of their qualification, experience and their expertise in the area of corporate governance. With regards to the questionnaire, both open-ended and close-ended questions were used. This question style was adopted because it facilitates ease understanding on the part of the respondents. It also enables the researcher to have a direct visual impression of the trend of events. The questionnaires were given to customers personally and those who cannot read or write were assisted to fill. The first part of the questionnaire contains questions on the organization and respondents' characteristics. The second part of the questionnaire examine distribution strategies, attitude and perception of customers and management using three-point scale of 3-very good,2good and 1 very poor. A total of one hundred usable questionnaires were completed and used for the analysis.

In order to make the study detailed and concrete, a total number of one hundred and five respondents made up of management, customers and employees from Opoku Trading. Besides the questionnaire, the respondents were interviewed (convergent depth interview) with a topic guide and their responses transcribed. To get this respondents (sample- 105), purposive and quota sampling techniques were used. That is, the selection of the respondents to be interviewed will be as a matter of necessity. These techniques were used because they help in saving cost and the cost saving may be used to improve the quality of the research through increasing sample size. Again, the data, when compared to random methods which are perhaps double the cost, has been proved to be acceptable provided that the research is managed effectively. To gain an indepth knowledge into the nature of distribution management, the respondents were selected by triangulating (Flick, 1998; Blaikie, 1991). Statistical tools or normal distribution curves and software packages such as SPSS was used to analyze the data.

PRESENTATION, ANALYSIS AND FINDING(S) FROM DATA

Data collected from questionnaires and interviews were analyzed accurately in this section. A total of one hundred and five (105) questionnaires were administered to customers for their views. Those who were unable to write were interviewed using the questionnaires as a guide.

TABLE 1: AGES OF RESPONDENTS

AGES(YEARS)	FREQUENCY	PERCENTAGE%	MEAN	STD DEV	VARIANCE
18-24	52	49.5%	1.65	0.720	0.519
25-34	38	36.1%			
35 ABOVE	15	14.2%			
TOTAL	105	100			

Source: Field Survey (Opoku Trading Company), August, 2012

Due to customers' differences, the researcher targeted its customers on their age group to know the impact that distribution have on the purchasing behavior of Opoku Trading Company in the Kumasi Depot. Table 1 indicates that 58 of the respondents fall within the ages of 18-24 years, 38 respondents' fall within 25-34years, and 15 respondents' fall above 35 years. Therefore, it indicates greater number of respondent fall within 18 to 24 years which represents 49 .5% and fellow by 25 to 34 years which represent 36%. It is assumed that majority of the respondent fall within the working force since the youth are also part of the force. And also the mean of the respondent age was 1.65 it shows that average age of respondent is between 18 and 26 ages. The standard deviation of their age was 0.720 variance was 0.519

TABLE 2: The regression and correlation analysis of respondents' knowledge of distribution strategies

Respondents knowledge	Star rating Pearson (2-tailed) r (p) N	Location ANOVA-Test F(p)	Std error	t	Sig	Mean Square
Intensive distributions	0.778 (**) .001 105	157.666; (0.03)	.069	12.557	.003(a)	14.494
Selective distribution	0.572(**) 0.021 105.	50.120; (.021)	.076	5.334	.021(a)	5.692
Exclusive distribution	0.275(**) 0.005 105	8.434;(0.005)	0.162	2.904	0.005(a)	4.318

a. Predictors: (Constant), customer knowledge

B Dependent Variable: intensive, selective, exclusive

Source: Field Survey (Opoku Trading Company), August, 2012

As shown in Table, a Pearson correlation coefficient of the test indicates a strong positive relationship between the customers understanding and distribution strategy (intensive distribution). As indicate in the above table that (r= 0.779, p<.01). This means that changes in distribution strategy will correlate with customer understanding. In addition, Sig (2-Tailed) value which is 0.03, we can conclude that there is statistically significant correlation between customers understanding and distribution strategy (intensive distribution).

The coefficient of the above correlation analysis r = 0.572 shows that there is strong positive correlation between customers understanding about distribution strategy (selective distribution). This means that customer has knowledge about selective distribution strategy. In addition, Sig (2-Tailed) value which is 0.021, we can conclude that there is statistically significant correlation between customers understanding and selective distribution strategy. As determined by one-way

^{**} Correlation is significant at the 0.01 level (2-tailed).

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ANOVA (F= 156.77, p = .001), there is a statistically significant difference between customers knowledge or understanding and distribution strategy (intensive distribution).

TABLE 3: Correlations between distribution and its importance to the firm

Importance of distribution	Increase customer	Easy flow of goods	Increase sales and	
to the firm	satisfaction		rate of returns	
Pearson	1 0.160	-0.196(*)	246(*)	
Distribution Sig. (2-tailed)	0.102	0.045	0.012	
105	N	105	105	

Note: * Correlation is significant at the 0.05 level (2-tailed)

The coefficient of the above correlation analysis which is 0.160 shows that there is weak positive correlation between importance of distribution to customer and how it increases customers satisfaction. Therefore we could conclude that importance of distribution to customer and how it increases customer's satisfaction are strongly correlated. In addition, Sig (2-Tailed) value which is 0.102, we can conclude that there is statistically significant correlation between importance of distribution to customer and how it increases customer's satisfaction.

Also coefficient of the above correlation analysis r = -0.196 shows that there is weak negative correlation between importance of distribution to customer and Easy flow of goods. We could conclude that when Opoku trading continues to use one distribution strategy, it will not make easily flow of goods to the final consumer. In addition, Sig (2-Tailed) value which is 0.045, we can conclude that there is statistically significant correlation between importance of distribution to customer and Easy flow of goods.

The last column of the table shows coefficient of the correlation analysis r=-0.246 shows that there is weak negative correlation between importance of distribution to customer and Increase sales and rate of returns. This means that as one organization tries to change its distribution strategy, it will decreases sales and rate of returns of the organization for some time. Also, Sig (2-Tailed) value which is 0.012, we can conclude that there is statistically significant correlation between importance of distribution to customer and Increase sales and rate of returns. That is, change in distribution strategy does significantly relate to change sales and rate of returns.

TABLE 4: The relationship between management and the customers they served

		Management	Customer
Management	Pearson Correlation	1	302
	Sig. (2-tailed)		.275
	N	15	15
customer	Pearson Correlation	302	1
	Sig. (2-tailed)	.275	
	N	15	15

The table above (Table 4) shows the relationship between management and the customers they served. This shows how management relates to their customers in terms of customers relationship. The coefficient of the above correlation analysis which is -0.302 shows that there is weak negative correlation between management and customer they served. This shows that, though relationship exists between management and customer they served, yet there is weak relationship between management and customer they served. We can conclude that there is less cordial relationship between them. With regards to Sig (2-Tailed) value which is 0.275, we can conclude that there is statistically significant correlation between management and customer they served.

TABLE 5: perception about the general retail activities of opoku trading company

GENERAL ACTIVITIES	FREQUENCY	PERCENTAGE	MEAN	STD DEV.	VARIANCE
Very good	54	51.4%	1.60	0.688	0.473
Good	39	37.1			
Very poor	12	11.4			
Total	105	100			

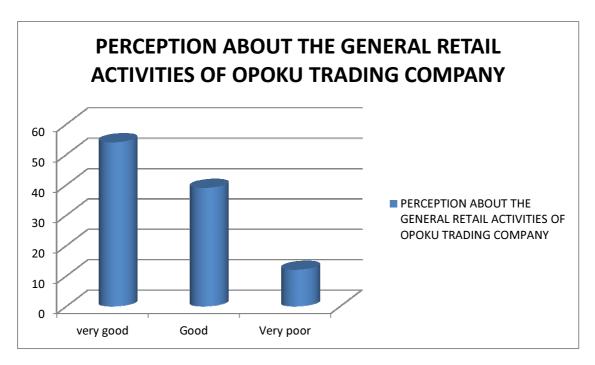


Figure 1: perception of general activities of Opoku Trading

From the table above customers were asked about how they perceive the general retail activities of Opoku Trading Company. Out of 105 respondents, 54 respondents rated their activities as Very good which represents fifty percent (51.4%), 39 respondents said Good representing thirty-seven percent (37.1%) and 12 respondents response was Very poor representing seventeen percent (17.%). This means that the general retail activities of Opoku Trading are on cause, as was said by the customers interviewed and the questionnaires administered to them.

TABLE 6: Correlation of perception about the general retail activities of Opoku Trading

		Customer Perception	Activities Of Opoku Trading Company
Customer Perception	Pearson Correlation	1	070
	Sig. (2-tailed)		.678
	N	105	105
Activities Of Opoku Trading Company	Pearson Correlation	070	1
	Sig. (2-tailed)	.478	
	N	105	105

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The coefficient of the above correlation analysis which is -0.070 shows that there is weak negative correlation between customer perception and activities of Opoku trading company. This means that changes in customer perception will not correlated with the activities of Opoku trading company. Therefore we can conclude that customer perception and the activities of Opoku trading are not strongly correlated. With regards to Sig (2-Tailed) value which is 0.478, we can conclude that there is statistically significant correlation between customer perception and activities of Opoku trading. That means, increases or decreases in customer perception do significantly relate to increases or decreases in activities of Opoku trading.

CONCLUSION, MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

Consumers in today's marketplace are enlightened and empowered by the information that they have at their disposal from the internet and from many other sources. Their access to supply sources has expanded dramatically beyond their immediate locality by virtue of catalogs, the internet, and other media. Consumers have the opportunity to compare prices, quality, and service. In turn, they demand competitive prices, high quality, tailored or customized products, convenience, flexibility, and responsiveness. They tend to have a low tolerance level for poor quality in products and or service. However, this is not the case of Opoku Trading as the finding indicated that management has not done well to establish cordial relationship with their customers. The paper also indicated that there is statistically significant correlation between distribution and customer satisfaction, easy flow of goods and sales. Again, the analysis and discussions also indicated that most of the customers are between the ages of 18 and 24 meaning they are youth who are fascinated by technology. Besides, they also constitute the working population and do not have the time to go to the shop floor to buy but prefer to shop online.

However, because the extent to which customers become satisfied and remain with a particular supplier depends on how easily goods and information flow to them, and how their specific needs are met promptly and with ease, one can conclude that very soon most of Opoku Trading's customers if not all will switch because the company has not done enough to keep them. Again, judging from the findings, one can say that the profit level of the company will soon dwindle which can even lead to its collapse. From the above, I will recommend that management of Opoku Trading should set up a very efficient customer service department responsible for customer satisfaction and complaints. They should also conduct frequent survey to track.

Customer satisfaction levels and effect remedial measures if the need be. In as much as majority of the customer are workers and youth, Opoku Trading should involve themselves in internet marketing and other social media to provide convenience and 24 hour service to their customers. As a result of this, there must be a high degree of management skill, synchronization and integration with the overall organization, as it will be one of the major components in achieving a sustainable competitive advantage.

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European Journal of Business and Innovation Research

Vol. 1, No. 3, pp.28-44, September 2013

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