Using Physical Distribution Strategy for Better Channel Management

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One of the major elements needed by the manufacturer to foster a cooperative team of channel members at both the wholesale and retail levels is an effective and efficient physical distribution strategy (13, p. 239). While physical distribution strategy (hereafter referred to as PD) has received increased attention in the marketing literature particularly during the past ten years (1,2,4,5,6,12,14), its role in the firm's overall channel management strategy has hardly been examined (8). This is surprising because an understanding of the relationship between PD and channel strategy is necessary if the marketer is to play a part in shaping the manufacturer's PD strategy so that it is more likely to foster channel member cooperation rather than conflict. In short, a manufacturer's PD strategy can be instrumental in either fostering or inhibiting channel member cooperation. Management must therefore attempt to influence the firm's PD strategy so as to help assure that it will promote the more positive effect on the channel members (13, p. 24).

PHYSICAL DISTRIBUTION AND CHANNEL MANAGEMENT INTERFACES

If management is to influence physical distribution strategy so as to help promote channel member cooperation, it must deal with at least four

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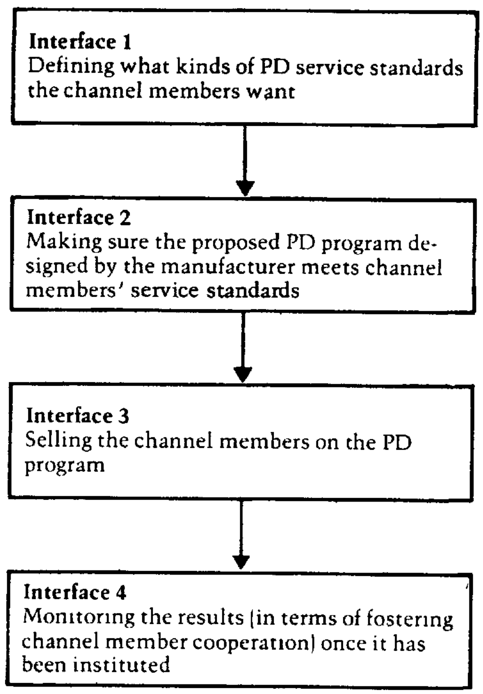
PD–channel management interfaces. These are:

1. Defining what kinds of PD service standards the channel members want.
2. Making sure that the proposed PD program designed by the manufacturer meets the channel members' service standards.
3. Selling the channel members on the PD program.
4. Monitoring the results of the PD program once it has been instituted.

Figure 1 portrays these in a sequential format.

FIGURE 1

INTERFACES BETWEEN PHYSICAL DISTRIBUTION STRATEGY
AND CHANNEL MANAGEMENT VIEWED SEQUENTIALLY



The remainder of this article discusses each of these PD–channel strategy interfaces and their implications for channel management.

Defining Physical Distribution Service Standards

PD service standards refer to what kinds and levels of service the channel members expect from the manufacturer. Heskett, *et al*, for example, list nine common categories of services that are frequently of importance to a broad range of channel members at both the wholesale and retail levels (6, pp. 250-251):

1. Time from order receipt to order shipment.
2. Order size and assortment constraints.
3. Percentage of items out of stock.
4. Percentage of orders filled accurately.
5. Percentage of orders filled within a given number of days from receipt of the order.
6. Percentage of orders filled.
7. Percentage of customer orders that arrive in good condition.
8. Order cycle time (time from order placement to order delivery).
9. Ease and flexibility of order placement.

The relative importance placed on these service standards (as well as others) vary for particular channel members and even for different products which they handle. Thus, the practical problem facing management is to *investigate the views of the channel members to obtain accurate data on what kinds of PD service they actually want.*

Hutchinson and Stolle suggest the use of survey research for dealing with this problem (7, pp. 85-96). The survey should be designed to ask *specific* questions about what kinds of services the channel members want. For example, do the channel members want such services as toll free telephone ordering, more shipping notices, simplified order forms, special handling systems, or other features. Further, such surveys can also help the manufacturer to find out whether the channel members would be willing to pay (e.g., through larger orders or higher prices) for improved physical distribution service. Finally, the surveys can provide information from the channel members about the service levels of competitors. Such data will be useful for pinpointing areas where PD can be used to gain a competitive advantage.

Perreault and Russ offer another approach for learning about channel member PD service demands (12, pp. 41-44). They suggest that the channel members be presented with alternative prospective PD service programs. Channel members' preferences on the various alternatives may then be evaluated in terms of what kinds of cost-service trade-offs the channel members would be willing to make. As Perreault and Russ state:

> The dollar trade-off values estimated in this fashion provide the marketing manager with an index of what changes the customer considers to be important, and more specifically whether the additional revenues (due to the possibility of increased prices or increased demand) exceeds the additional costs incurred by the higher service level. The result of this type of analysis is the pinpointing of the PDS (physical distribution service package(s)), among all those considered, whose cost increases can best be justified by the potential incremental revenues from its target market (12, p. 44).

Evaluating the Proposed PD Service Program

A proposed PD service program may be offered to channel member as a separate entity or be included as a major component of the manufacturer's overall approach to supporting channel member needs. If the latter is the case, the PD service program may, for example, be the keystone feature of a channel "partnership" arrangement or play an important role in a comprehensive distribution programming agreement (13, pp. 196-208). In either case, the PD service program must be carefully developed *so that it actually meets the channel members' service requirements within tolerable cost constraints* (2).

In practice, the actual design of the program would be done by experts in the field of physical distribution either on the manufacturer's payroll or by outside consultants. Nevertheless, marketing management should still play a role in this to the extent of *making sure that the program does indeed meet the channel members' service requirements.* Fortunately, this does not require a high level of expertise in the technical aspects of PD design. What it does require, however, is that marketing management *have a clear understanding of the objectives of the proposed PD service program.* In short, it is marketing management's job to *make sure that the program the PD experts are developing is really what the channel members want.* For it is all too possible to have a sophisticated PD program incorporating the latest technical advanced but still be far off the mark in terms of meeting channel member PD service demands and, hence, do little to foster channel member support. For example, consider what happened to the Gillette Co.:

The Gillette Co., makers of the worlds largest-selling brand of razor blades and safety razors, was faced by a staggering assortment of changes in its operations. Among these were: diversification into a broad range of toiletry products, a shift of its main distribution channels from drug and tobacco chains to grocery chains, and the introduction of stainless steel blades by competitors.

Gillette sought to get one up on the competition in providing PD service to its thousands of channel members by emphasizing speedy delivery of its own new blades. The PD program designed to accomplish this was dependent upon the fastest mode of transport–air freight. It turned out, however, that the cost of this air freight based PD service was too high. Both Gillette and many of its channel members complained about the high costs and resulting lower profit margins. Gillette quickly dropped this PD program and developed one based on the use of lower cost surface transport (10, p. 112).

On the other hand, PD service programs that are carefully designed to focus on meeting customer service requirements, can play a major role in promoting channel member support as shown in the following case:

A California based producer of cut flowers wanted to reach the mass consumer markets. This required a channel structure that emphasized retail distribution through department stores and supermarkets rather than the traditional flower shops. The main problems in doing this, however, were: 1) to convince these retailers that the flowers would use only a minimum of floor space, and 2) that a fresh and timely supply would always be available to assure a high rate of turnover.

A high technology PD program was designed to meet these channel member service demands head on. First, a case that would hold standard trays of cut flowers was designed to minimize the use of floor space. This specially designed compact case offered the retailers the potential for a very high sales per square foot ratio. Second, the problem of providing a fresh and timely supply of flowers was solved by using air freight plus a specially designed container that (1) precooled the blossoms as they were cut in the fields, (2) held trays of flowers in different quantities, (3) fitted aircraft dimensions, and (4) had good handling characteristics. The combination of advanced physical distribution technology made it possible to deliver containers of flowers to almost any retail store in the United States in twenty-four hours or less (14, p. 38).

Selling The Channel Members on The PD Program

Regardless of how good the manufacturer perceives his PD service program to be, he still must convince his channel members of its value. As Stewart warns in alluding tó this point:

> A world of caution! Changes in physical distribution must be palatable to the Company's customers (channel members). Changes which provide cost benefits only to the manufacturer without corresponding benefits to customers may be more difficult to implement than those that offer incentives to customers to change (15, p. 70).

Unfortunately there is no "sure fire" way to assure that a proposed PD service program will be palatable to the majority of the manufacturer's channel members. As pointed out in the previous two sections of this article, the basis for gaining channel member acceptance is a carefully defined set of PD service standards that are in line with the expressed desires of the channel members. Nevertheless, Stewart does allude to several types of appeals which if emphasized by the manufacturer in his attempts to sell the proposed PD program, may help him to be more convincing (15, p. 68). Three of these are:

1. Emphasize the reduction in out of stock occurrences which the new PD program will make possible.
2. Emphasize the reduction in channel member inventories that the PD program will allow.
3. Emphasize the added manufacturer support for the channel members fostered by the new PD program.

Each of these is discussed below:

Minimizing Out of Stock Occurrences—By minimizing out-of-stock occurrences through an improved PD program, sales lost by the channel members will be reduced. If the manufacturer can convince his channel members that the new PD service package will indeed help them to achieve this result, he has a very potent argument for gaining an enthusiastic reception for the program. Of course, this must actually be the case. That is, the new PD program must actually be *capable* of achieving this result. False, misleading, or exaggerated promises made about a new PD program that are not backed up by facts and that are not borne out when the system is put into operation are likely to create conflict rather than enhance channel member cooperation (13, pp. 95-100). Thus, no matter how enthusiastic, the manufacturer may be about the benefits of a newly developed PD service program, he should avoid overselling these to his channel members.

Reduction in Channel Member Inventory Requirements–A well designed and responsive PD program can mean shortened channel member order cycles which in turn can mean lower inventories carried by the channel members. To the extent that a manufacturer can develop such a PD program to a greater degree than his competitors, it will be possible for channel members to gain an economic advantage by doing more of their business with this particular manufacturer. Here again, however, the manufacturer must actually be able to deliver on such a claim. One manufacturer that did this was the Norge division of Borg-Warner Co:

Norge, after conducting a study of its existing physical distribution system, decided to add more regional warehouses. While this increased its costs, which would eventually have to be reflected in higher prices to its dealers, the dealers were still happy with the change. The reason? The shorter order cycle time for shipment of the appliances from the larger number of warehouses to the retailers, would enable them to carry smaller inventories and to increase their turnover. This positive result would be more than enough to offset the higher initial costs resulting from the change.

Strengthening of Manufacturer Channel Member Relationship–A carefully designed PD program aimed at improving service to the channel members can serve as one of the most tangible signs of the manufacturer's concern and commitment to his channel members' success. Thus, in presenting his proposed PD program to the channel members, the manufacturer should emphasize that the program was conceived to help *them* (the channel members) to be more successful. When presented in this light a newly proposed PD program is less likely to be viewed with skepticism or suspicion by the channel members.

Monitoring the Physical Distribution System

As part of the manufacturer's overall attempt to learn about the needs and problems of his channel members, he should *continually* monitor the channel members' reactions to a newly instituted PD program. The principal objectives of such monitoring are to evaluate the channel members responses to the program and to find out whether modifications are needed.

The most effective way of doing this is to conduct a survey of a sample of channel members. If the number of channel members is small, it may be feasible to include all of them. The survey dealing with the new PD program may be conducted as part of an overall marketing channel audit or separately. In either case, the key areas of customer service at which the PD program was aimed should be examined.

While the mechanics of conducting such a survey are relatively simple, actually *doing* it and taking *action* based on the survey's findings call for the manufacturer to view the PD program as an integral part of his overall marketing strategy. As Magee states:

> Marketing policy and tactics have a fundamental and controlling influence on the design and operation of physical distribution systems. Marketing requirements establish the servicing limits within which the system must work. Marketing tactics impose loads on the physical distribution system which substantially affect its costs. Marketing management therefore, has and must accept a substantial responsibility for the design and operating costs of the physical distribution system (9, p. 25).

The close ties between PD and marketing strategies which Magee refers to exist *regardless* of where the manufacturer chooses to place the PD function on his organization chart (5). Thus, whether PD is structured as part of the marketing department, production department, or as a separate department within the total organization, there is no escaping the need to monitor its effects on the manufacturer's channel strategy, especially the degree to which it helps promote channel member cooperation.

SUMMARY AND CONCLUSION

Physical Distribution (PD) while given a great deal of attention in the marketing literature during the past decade, has not been examined explicity in terms of how it interfaces with channel management. Yet an understanding of PD—channel management interfaces is necessary if the marketer is to play a role in shaping the firm's PD strategy so that it is more likely to foster channel member cooperation rather than conflict.

PD interfaces with channel management in at least four areas: (1) defining channel member service standards, (2) making sure a proposed PD program meets these standards, (3) selling of the program to the channel members, and (4) monitoring the program once instituted to determine if it contributes to fostering channel cooperation.

Regardless of how the manufacturer treats the PD function from the standpoint of his own internal organization structure, there is no escaping these PD–channel management interfaces. Consequently, the marketer who is concerned with the channels aspects of the manufacturer's overall marketing strategy has an important role to play in influencing the firm's PD strategy so that it helps to enhance channel member cooperation.

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