

Chapter 11

Distribution
Customer
Service and
Logistics

At the end of this presentation, you should be able to:

1. Understand why logistics (physical distribution) is such an important part of Place and marketing strategy planning.
2. Understand why the physical distribution customer service level is a key marketing strategy variable.
3. Understand the physical distribution concept and why the coordination of storing, transporting, and related activities is so important.
4. See how firms can cooperate and share logistics activities that will provide added value to their customers.

At the end of this presentation, you should be able to:

5. Know about the advantages and disadvantages of various transportation methods.
6. Know how inventory and storage decisions affect marketing strategy.
7. Understand the distribution center concept.
8. Understand important new terms.

Marketing Strategy Planning Process



The Role of Logistics and Physical Distribution Customer Service in Marketing Strategy (Exhibit 11-1)



CH 10: Place & Development of Channel Systems

CH 11: Distribution Customer Service & Logistics

CH 12: Retailers, Wholesalers & Their Strategy Planning

Logistics customer service

- What is it?
- Level to offer
- Cost
- JIT and EDI

Transporting

- Transportation modes
- Benefits and limitations

Storing

- Storage & strategy planning
- Inventory costs
- Storage facilities
- Distribution centers

Physical Distribution Gets It to Customers

**Logistics
or
Physical
Distribution**



Physical Distribution Customer Service

Why outsource?



Consider these facts:

- 30% of your distribution costs go to transportation. And every gain in productivity and efficiency goes straight to your bottom line.*
- 90% of businesses either outsource or are considering outsourcing their transportation and distribution functions.
- 48% of companies lease trucks today.
- 27% more companies are using contract logistics than 5 years ago.

Then call Penske.

- A customer-focused, financially sound industry leader
- A track record of helping thousands of companies cut costs, reduce cycle times, improve customer satisfaction, and gain a competitive advantage
- A long history of providing quality service in logistics, leasing and renting
- Global capabilities
- Proven technology solutions that provide customers a seamless flow of information in a real-time environment
- A commitment to quality drives all our operations



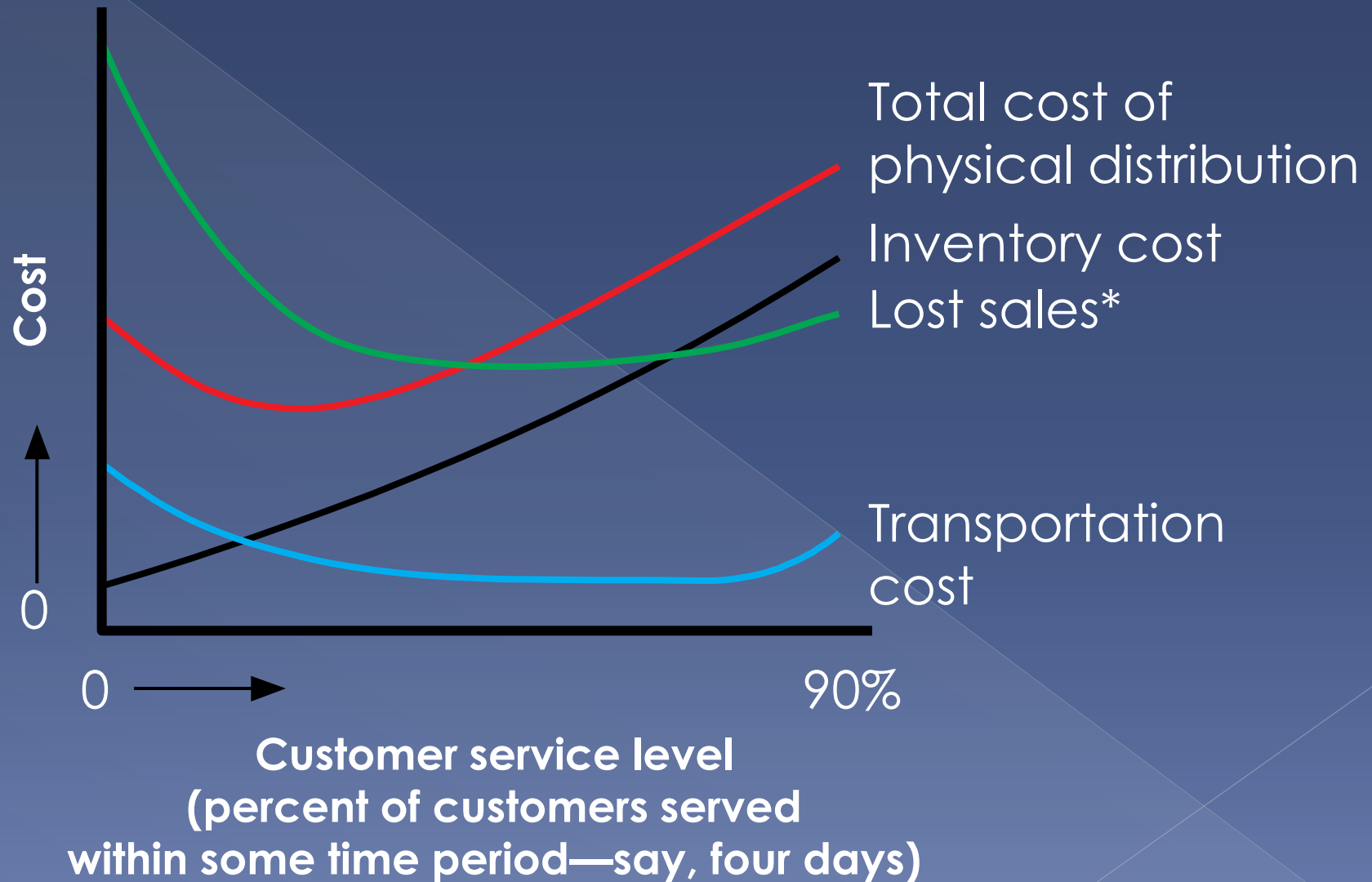
To solve your transportation needs, call 1-800-221-3040.

PENSKE

*Purchasing Magazine
White Paper, March 7, 1996.

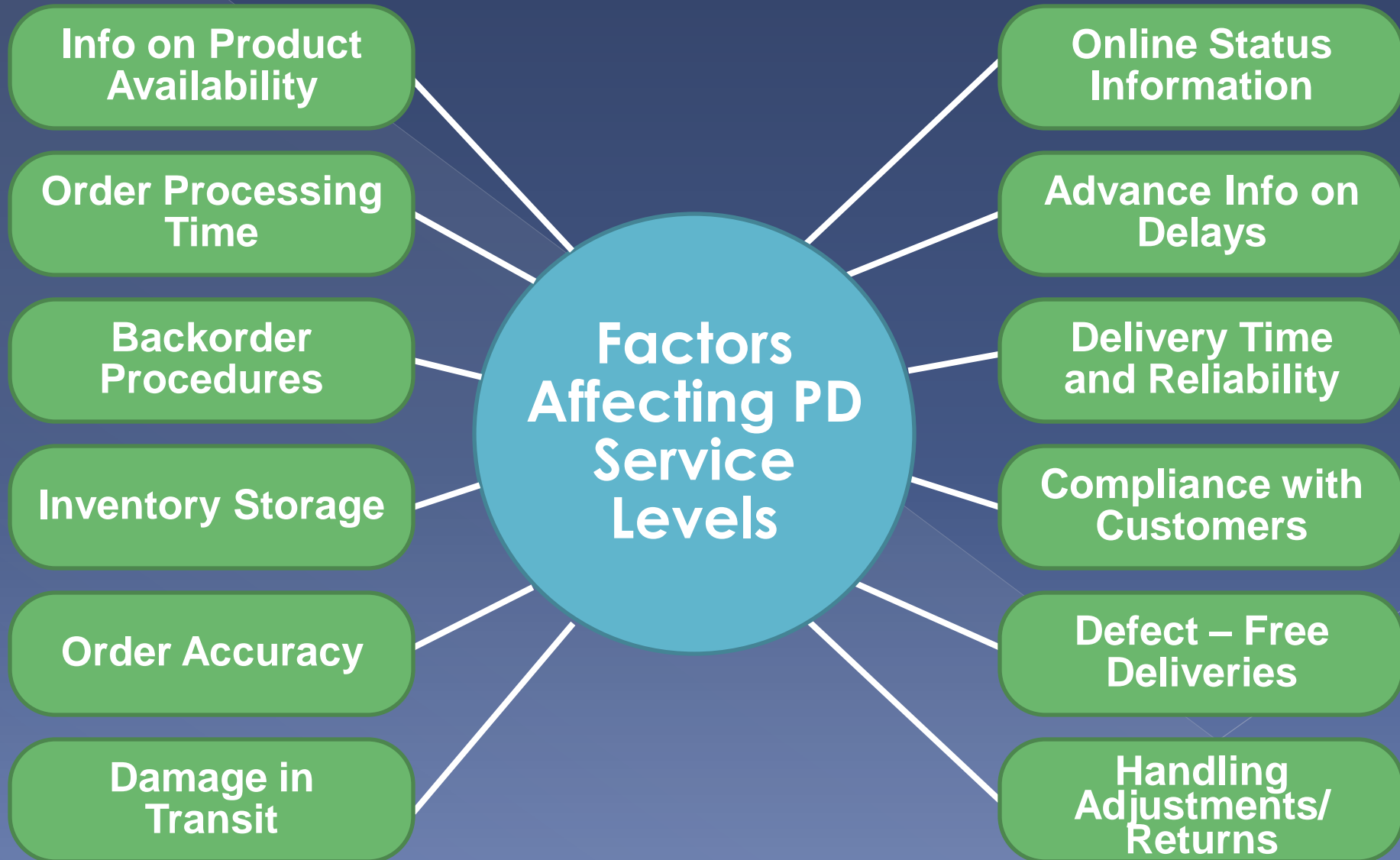
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Trade-Offs among Physical Distribution Costs, Customer Service Level, and Sales (Exhibit 11-2)



*Note: Sales may be lost because of poor customer service or because of the high price charged to pay for too high a customer service level.

Physical Distribution Concept Focuses on the Whole Distribution System (Exhibit 11-3)



Physical Distribution Customer Service Level



The Total Cost Approach



We're changing the shape of shipping, again.

Take a train across the ocean? NYK can. Trains, helicopters, airplanes and even massive industrial machines are transported safely and securely around the world by NYK. Our fleet, ranging from heavy lifters to pure car and truck carriers and large container ships, is designed for optimum flexibility. And NYK is always thinking of new methods and vessel configurations for accommodating a wide variety of cargoes. After more than a century of evolving to satisfy customer needs, we're in good shape for the future. **What, when, where, wow! NYK**



Heavy lifter

Pure car and truck carrier

Container ship



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Checking Your Knowledge

A manufacturer of accessories for personal computers evaluates all the alternative systems by combining order processing, transportation, inventory management, and storage. If the total cost approach is followed, which physical distribution system should the manufacturer select?

- A. The one that maximizes customer service at the highest total cost.
- B. The one that maximizes customer service at the lowest total cost.
- C. The one that meets the customer service requirement at the lowest total cost.
- D. The one that meets the customer service requirement and minimizes transportation cost.
- E. The one that maximizes customer service and minimizes the cost of each individual component of physical distribution.

Coordinating Logistics Activities

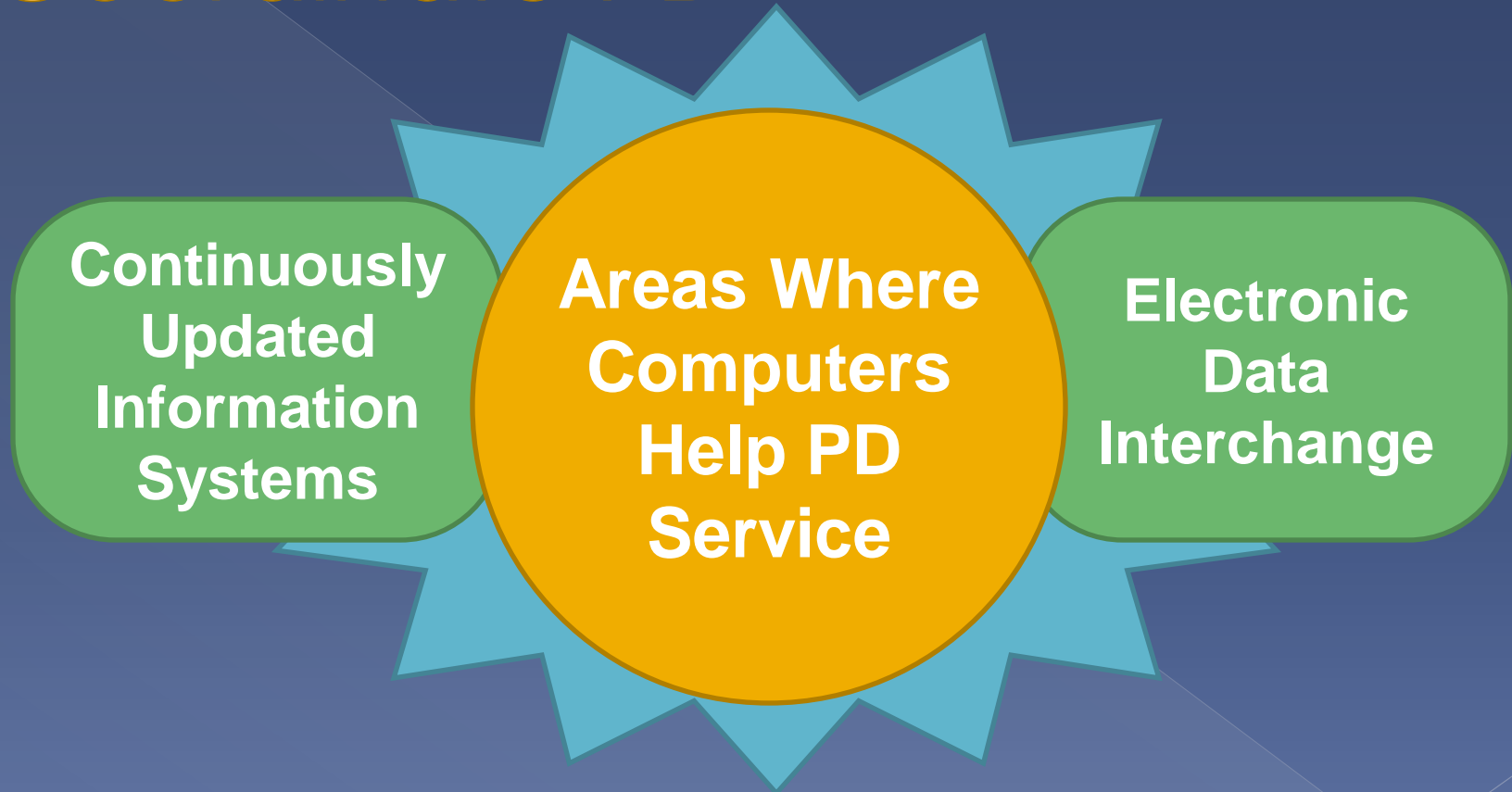


Shifting and Sharing

JIT

Supply Chain

Better Information Helps Coordinate PD



Ethical Issues May Arise

Product Availability

- False expectations about delivery speed
- Selling products that are not available
- Running out of popular products



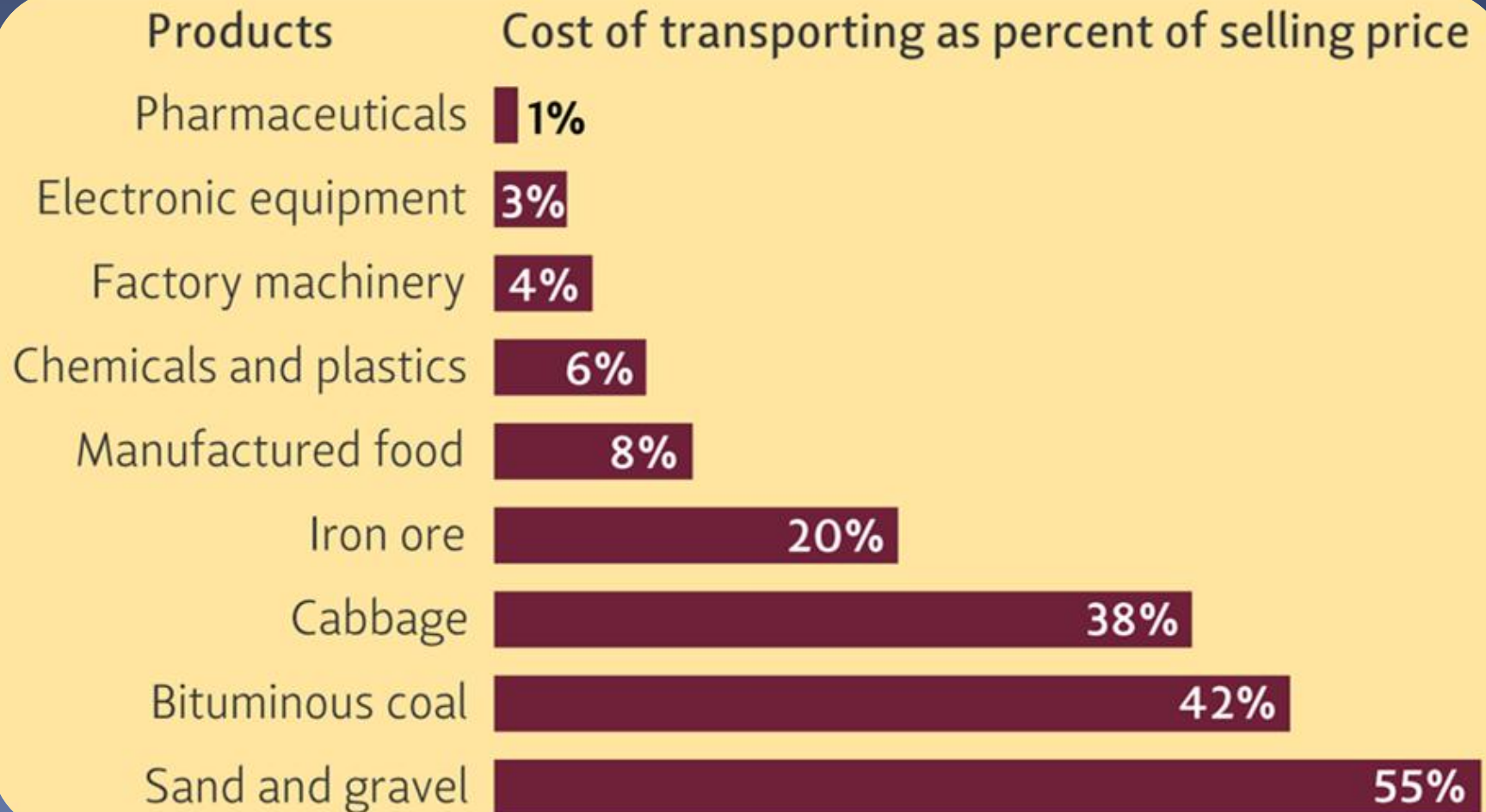
Coordination of PD

- Intentional delays in order confirmation
- Shifting of burden of holding inventory

Physical Distribution (PD) Concept



The Transporting Function Adds Value to a Marketing Strategy (Exhibit 11-4)



Benefits and Limitations of Different Transport Modes (Exhibit 11-5)

Transporting Features						
Mode	Cost	Delivery Speed	Number of Locations Served	Ability to Handle a Variety of Goods	Frequency of Scheduled Shipments	Dependability in Meeting Schedules
Truck	High	Fast	Very extensive	High	High	High
Rail	Medium	Average	Extensive	High	Low	Medium
Water	Very low	Very slow	Limited	Very high	Very low	Medium
Air	Very high	Very fast	Extensive	Limited	High	High
Pipeline	Low	Slow	Very limited	Very limited	Medium	High

Water Transportation



It's two of the safest ships ever built.



It's Mobil's *Raven*, and inside the hull that keeps water out is another hull keeping the oil in. Between them is a safety zone 13 feet wide, enough distance between oil and ocean to have prevented most of history's collision-caused spills. The *Raven* is our second double-hull supertanker (our *Eagle* was the first ever built and operated by an oil company), and two more are in the works.

Even without double hulls, they're amazing vessels. Their navigation systems are so precise that a 50-yard course deviation (less than the ship's width) causes alarms to go off. And Mobil crew training never stops. With 2.2 million barrels of oil on board, no one is more aware of the risks than we are. No one is more watchful or invests more in safety either. To learn more, visit www.mobil.com.

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“A taste of their global network.”



A strong, distinctive taste it is not if you consider original hot red peppers and other fresh herbs and spices, out of season vegetables and tropical fruits.

What's more, KLM Cargo carries all kinds of time-sensitive items like flowers, plant fruits, vegetables, seafood and meat. Fresh, refrigerated or frozen, with the right degree of humidity and appropriate packaging from anywhere to everywhere in our world-wide network.

Whether from Damnun Saduak, near Bangkok, or right to your door. So when shopping possibilities you can't do better than use KLM Cargo. We deliver your shipments to their recipients in

perfect condition. Right to their final destination, thanks to high-speed ground handling and climate-controlled surface transport. That's guaranteed by years of experience backed up by immediate feedback from sophisticated information systems.

Plus a complete door-to-door service, collection, storage and distribution. Even billing and administration, if you wish.

While all the time taking as much care of your shipment as you would yourself.

Taking Things Further



Interactive Exercise: Transportation Modes

Transportation Modes

Rail



Truck



Pipeline



Air



Water



Checking Your Knowledge

The best transportation alternative for shipping chickens from farms in West Virginia to processing plants in Maryland would be:

- A. air.
- B. truck.
- C. rail.
- D. water.
- E. none of the above.

The Storing Function and Marketing Strategy



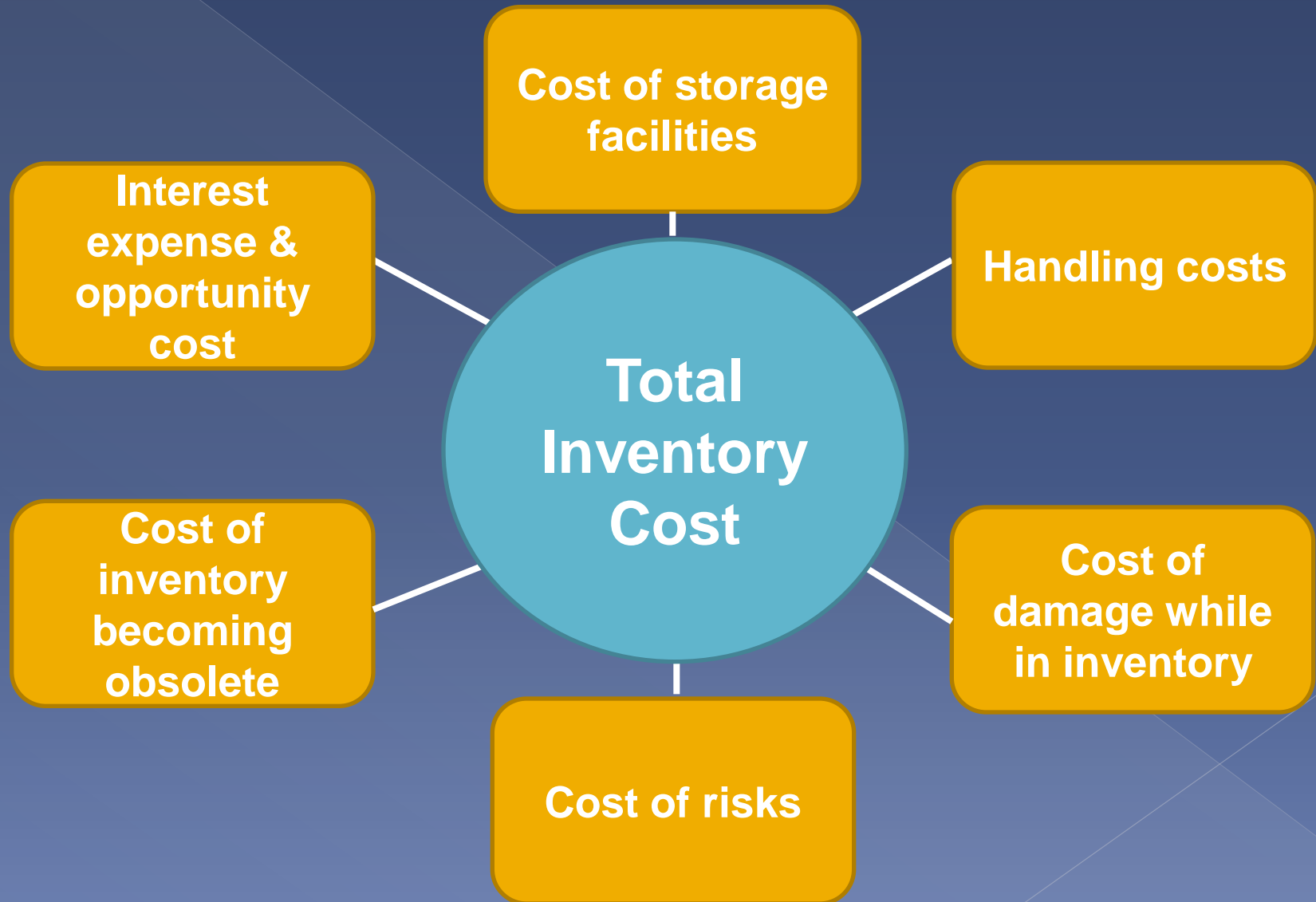
**Needed When
Production Doesn't
Match Consumption**

Keeps Prices Steady

**Achieves Production
Economies of Scale**

**Builds Channel
Flexibility**

Total Inventory Cost (Exhibit 11-6)



Specialized Storing Facilities May Be Required (Exhibit 11-7)

Characteristics	Type of Warehouse	
	Private	Public
Fixed investment	Very high	No fixed investment
Unit cost	High if volume is low – very low if volume is very high	Low – charges are made only for space needed
Control	High	Low managerial control
Adequacy for product line	Highly adequate	May not be convenient
Flexibility	Low – fixed costs have already been committed	High – easy to end arrangement

Distribution Center



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Key Terms

1. logistics
2. physical distribution (PD)
3. customer service level
4. physical distribution concept
5. total cost approach
6. supply chain
7. electronic data interchange (EDI)
8. transporting
9. containerization
10. piggyback service
11. storing
12. inventory
13. private warehouses
14. public warehouses
15. distribution center