

# Chapter 11

## Distribution Customer Service and Logistics



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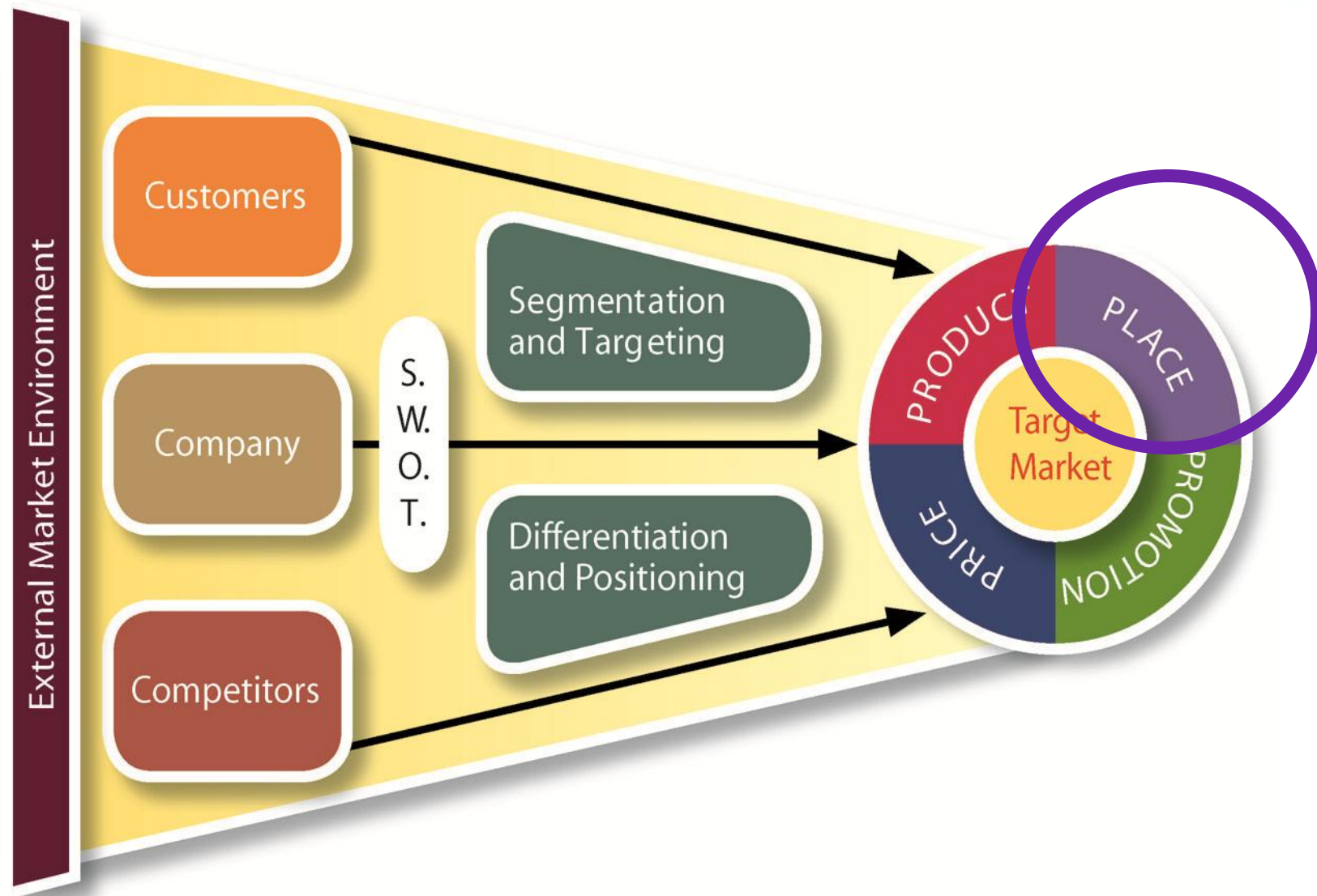
# At the end of this presentation, you should be able to:

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.

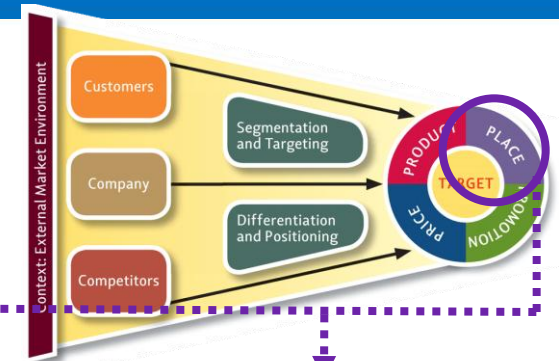
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6. Know how inventory and storage decisions affect marketing strategy.
7. Understand the distribution center concept.

# Place Decisions and the Marketing Strategy Planning Process



# Marketing Strategy Planning for Place (Exhibit 11-1)



CH 10: Place and Development of Channel Systems

CH 11: Distribution Customer Service & Logistics

CH 12: Retailers, Wholesalers & Their Strategy Planning

**Logistics customer service**

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

**Transporting**

- Transportation modes
- Benefits and limitations

**Storing**

- Inventory costs
- Storage facilities and 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.

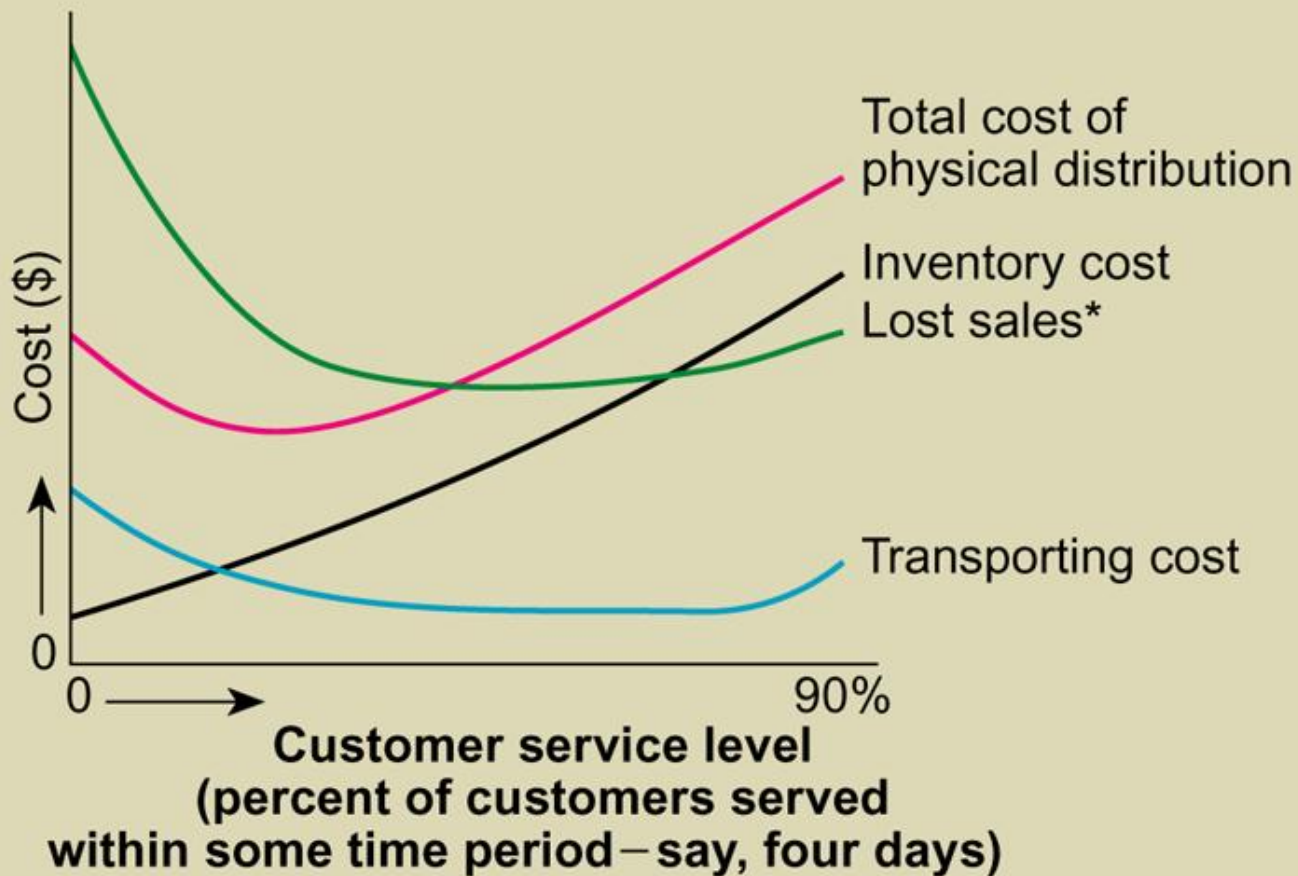
**PENSKE**

\*Purchasing Magazine  
White Paper March 7, 1998.

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Penske Truck Leasing Co., Inc. 1998

# Trade-Offs of Costs, Service and Sales

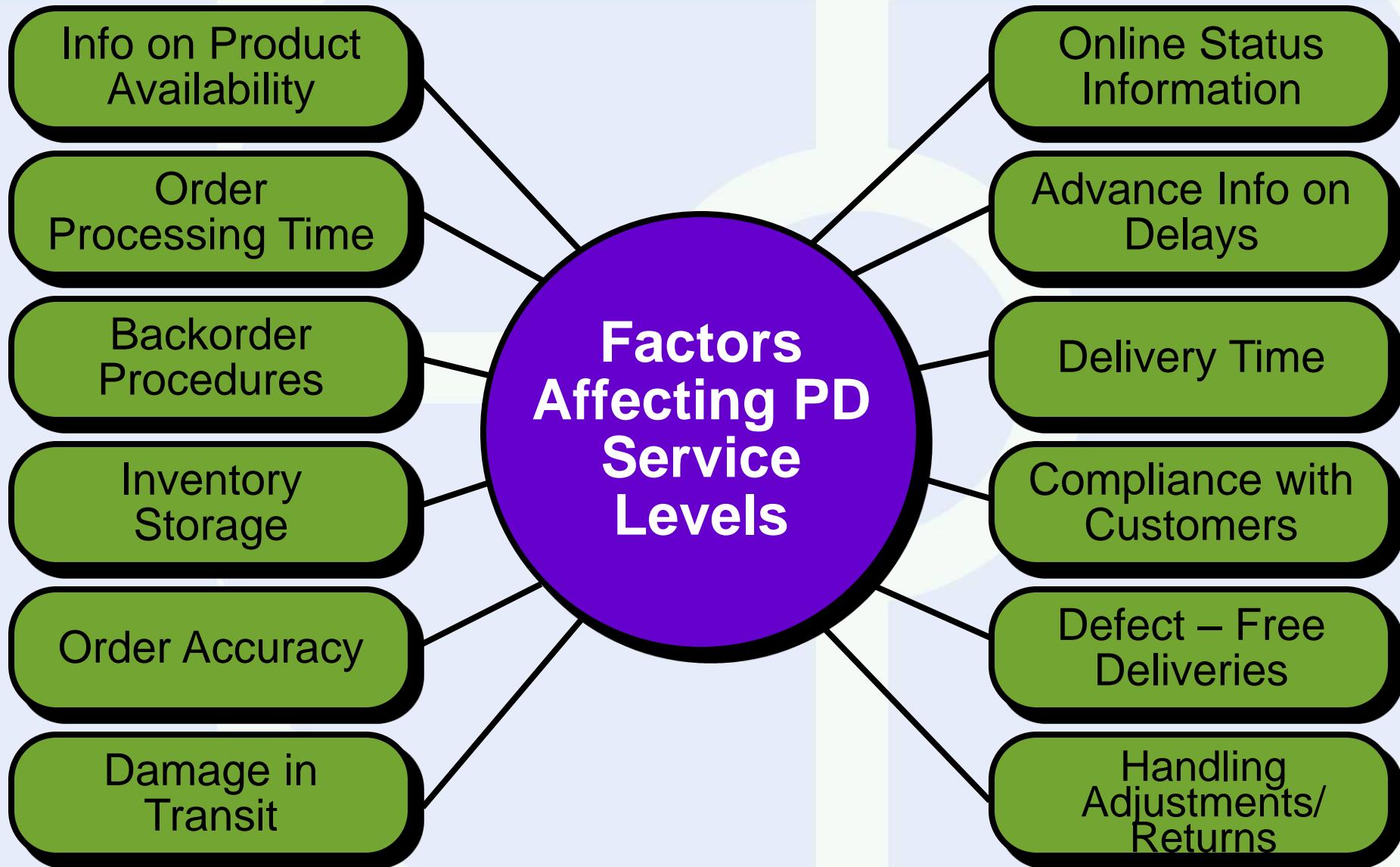
(Exhibit 11-2)



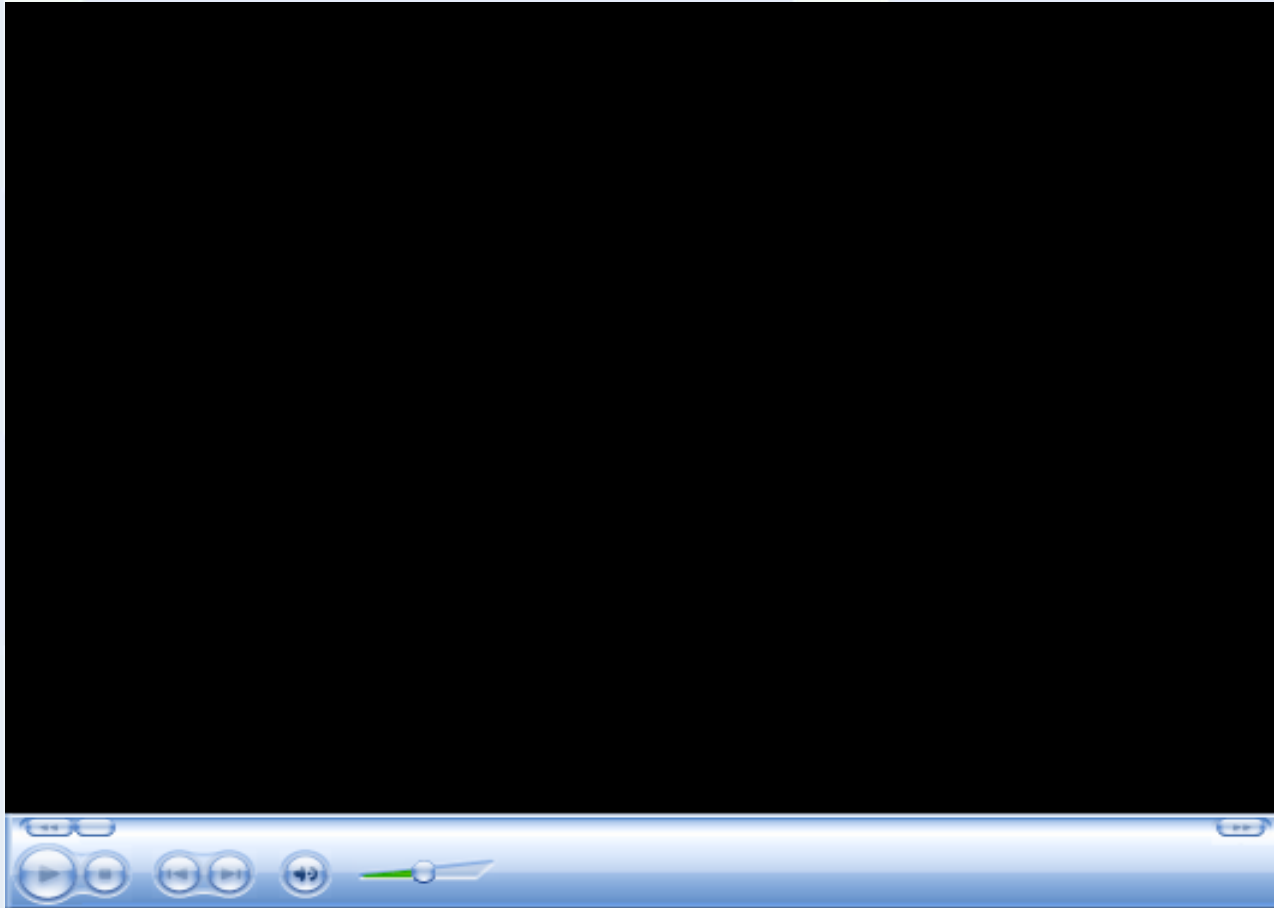
\*Note: Sales may be lost because of poor customer service or because of the high price charged to pay for too high a customer service level.



# 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

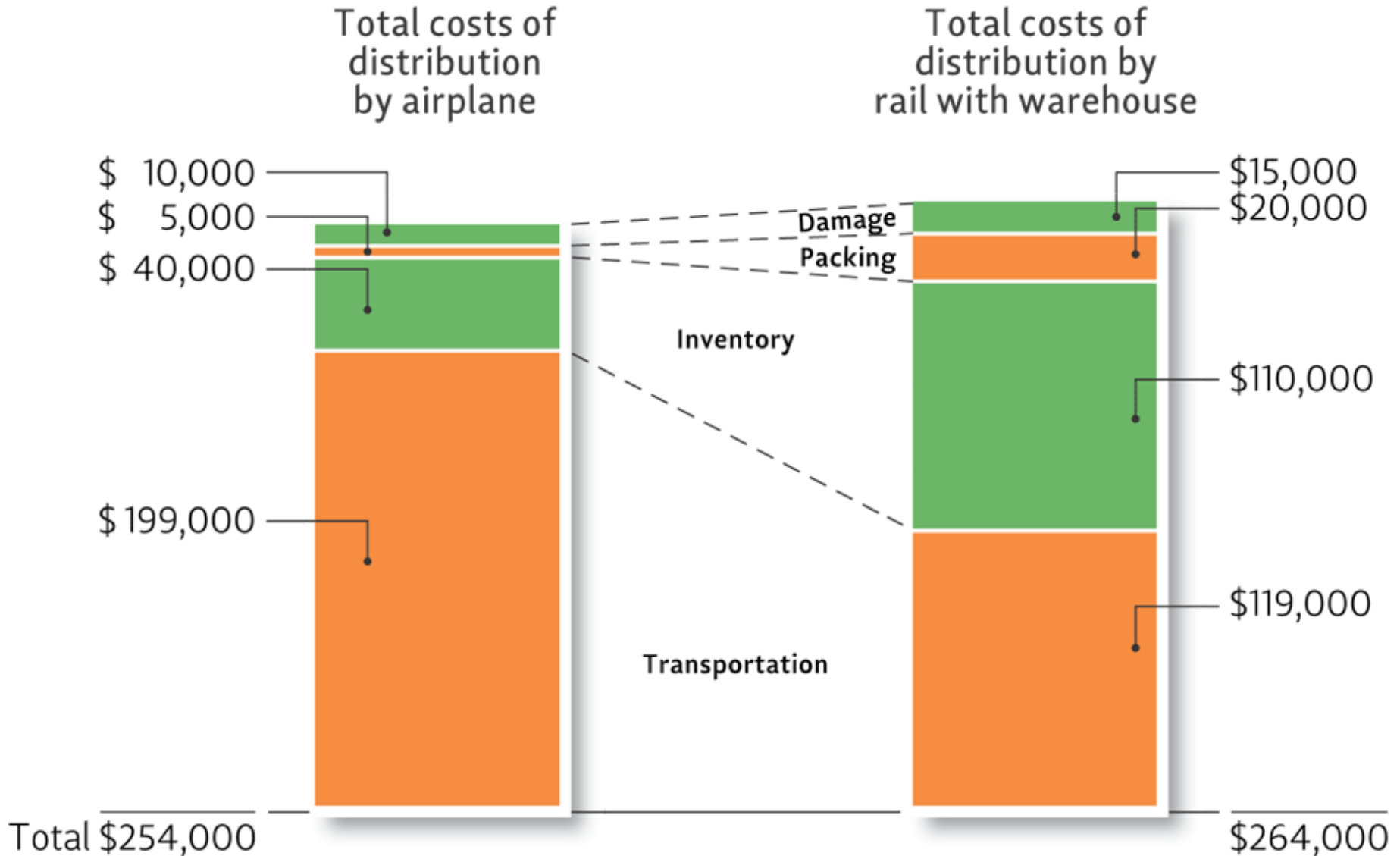
Container ship



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[www.nykline.com/](http://www.nykline.com/)

# A Cost Comparison of Alternative Systems



## Checking Your Knowledge

A manufacturer of accessories for personal computers evaluates all the alternative systems 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



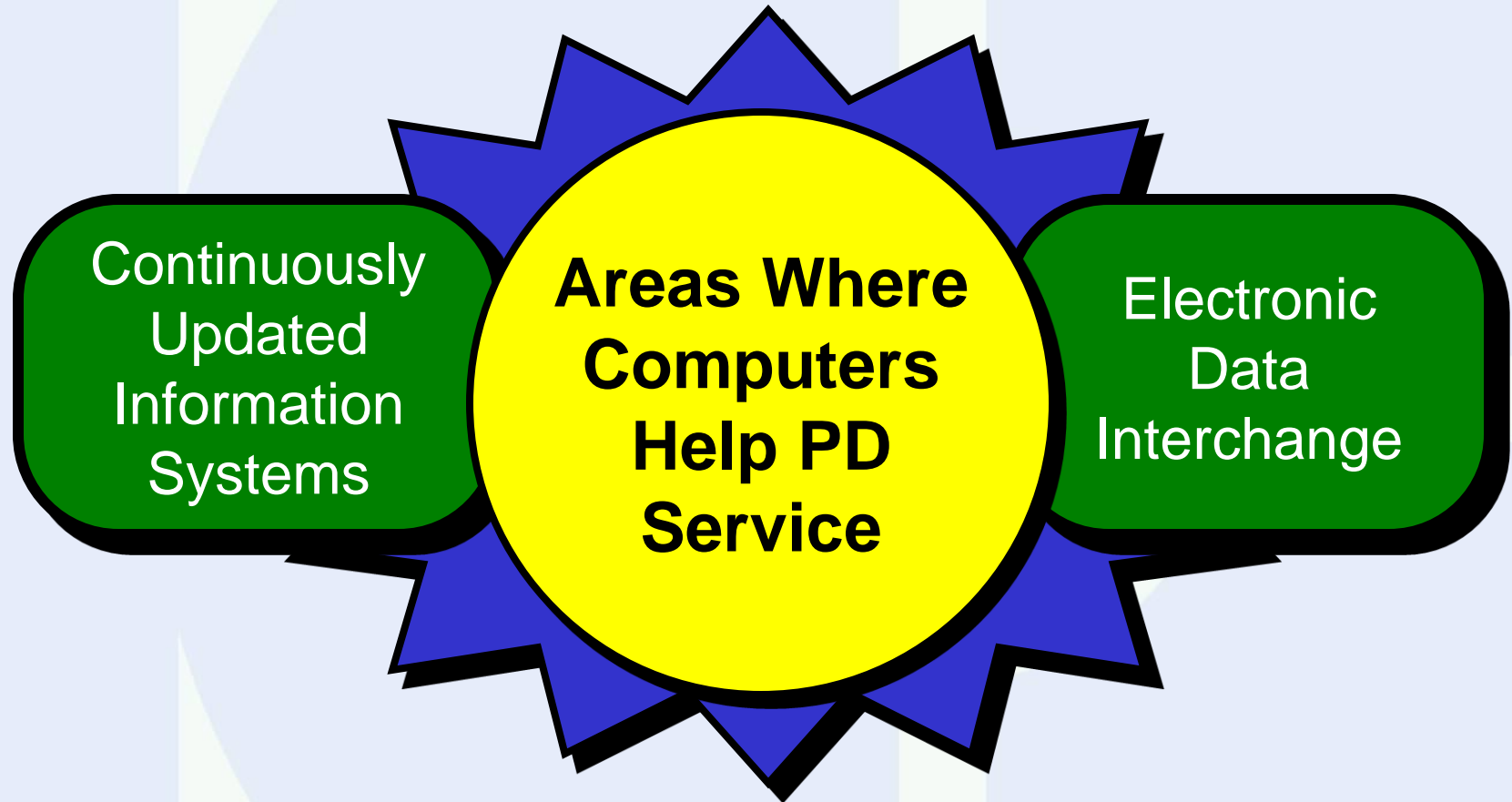
Shifting and Sharing

Conflict Handling

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

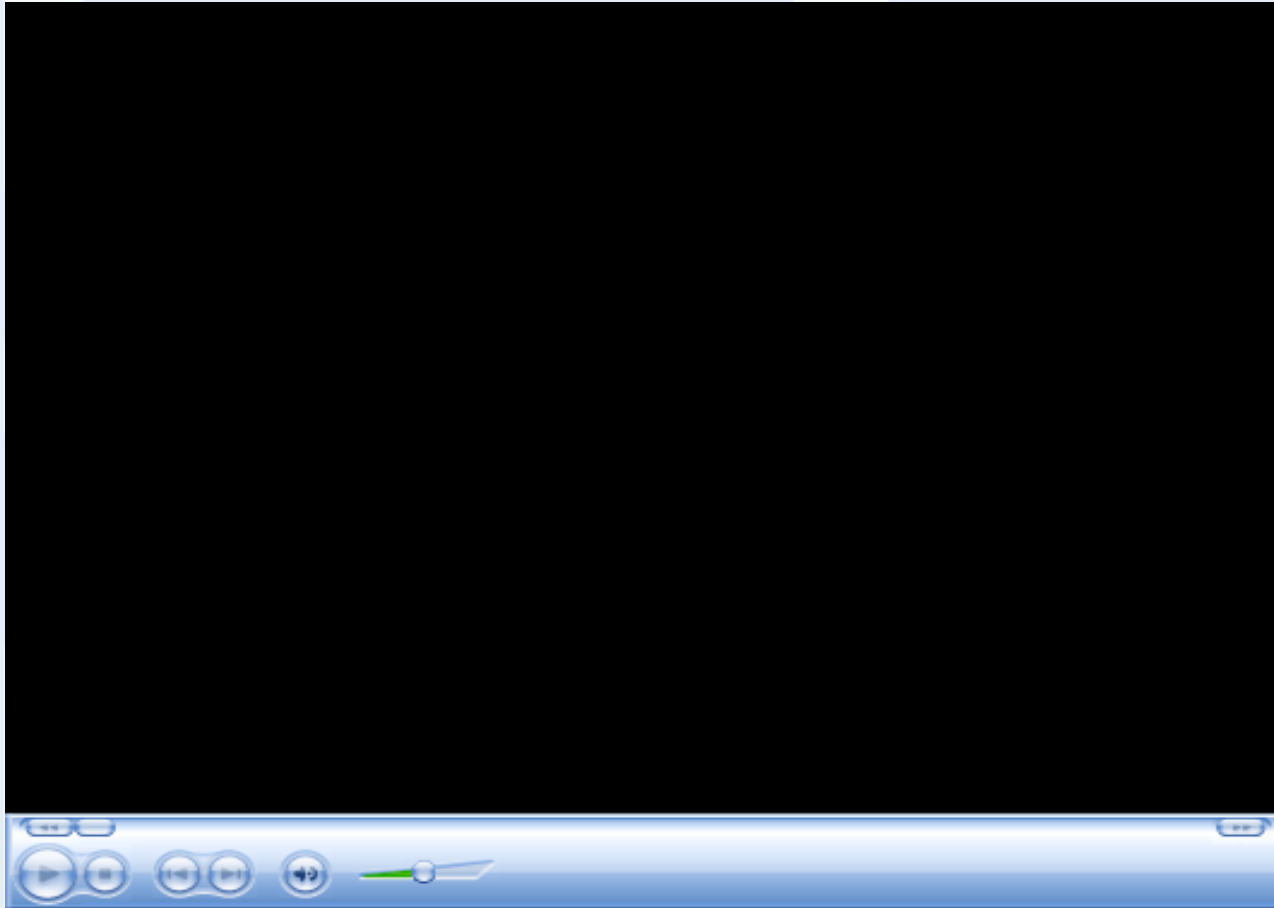


## Coordination of PD

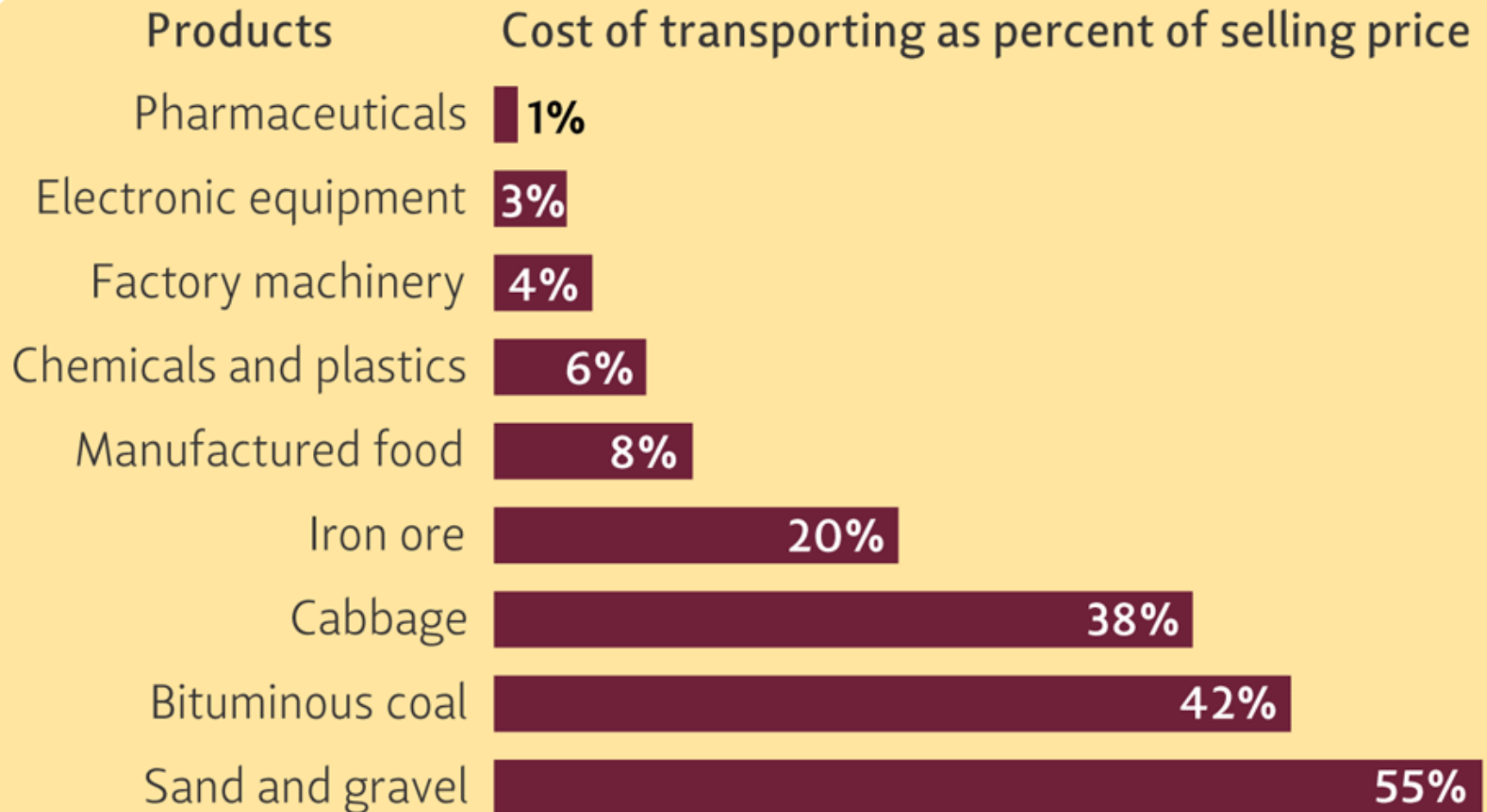
- Intentional delays in order confirmation
- Shifting of burden of holding inventory



# Physical Distribution (PD) Concept



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



# Which Transporting Alternative Is Best?

(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](http://www.mobil.com).

# Airfreight Is Expensive but Fast and Growing

“KLM Cargo from Damnun Saduak?”

“A taste of their global network.”



A strong, distinctive taste it is rare if you consider original hot and 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 shipping 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 locked 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

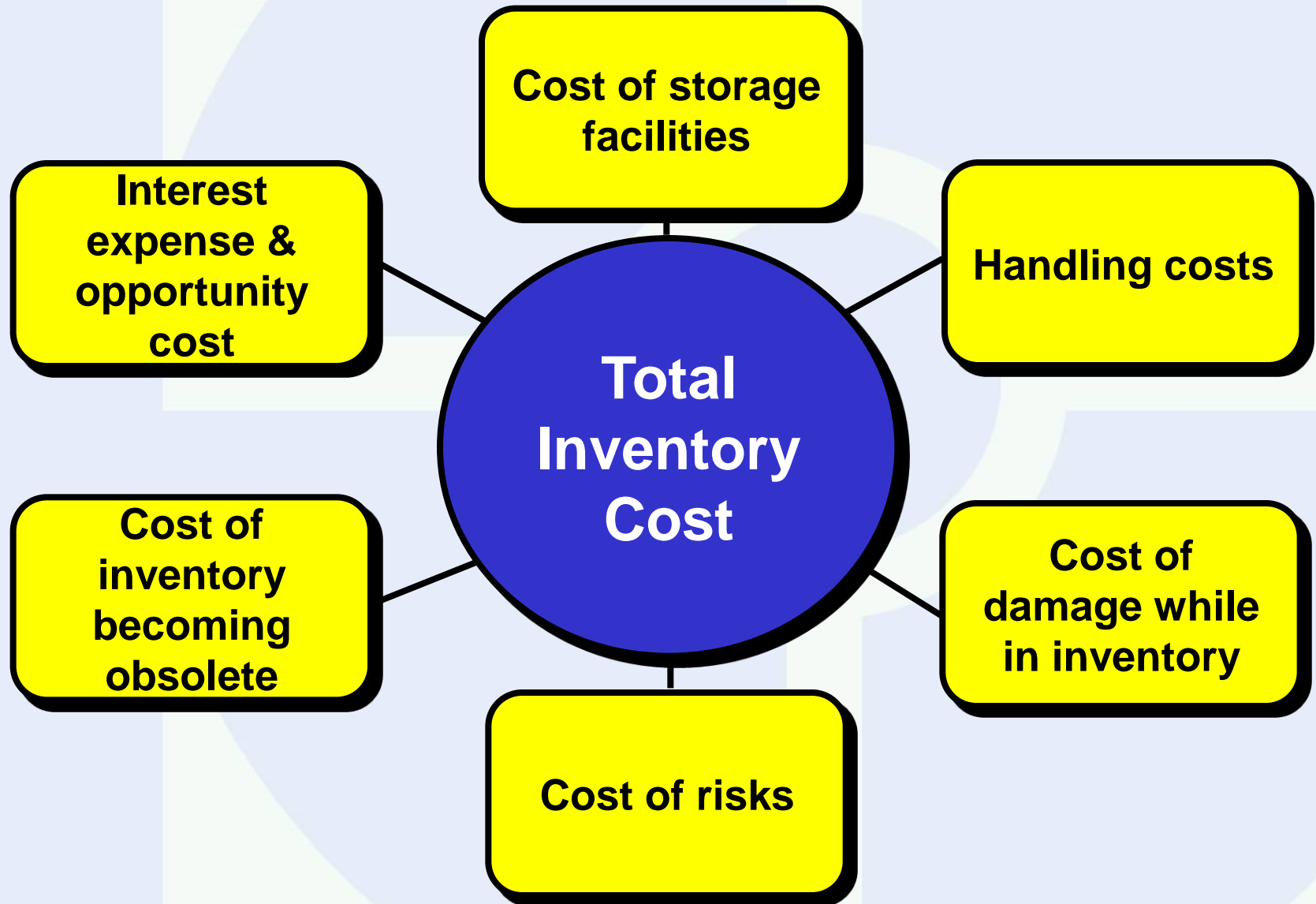
Keeps Prices Steady

Achieves Production  
Economies of Scale

Builds Channel  
Flexibility



# Total Inventory Cost (Exhibit 11-6)

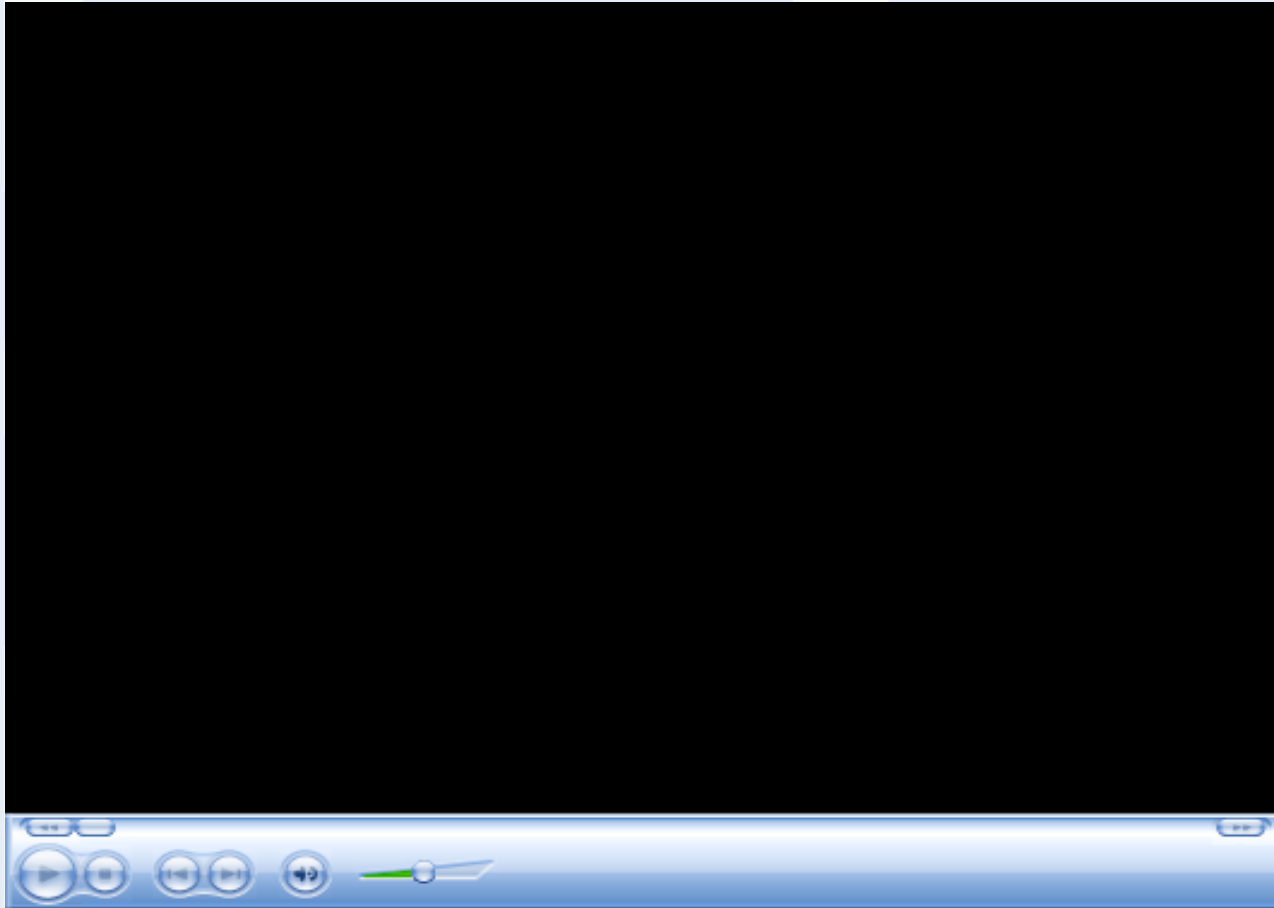


# Specialized Storing Facilities May Be Required

(Exhibit 11-7)

Characteristics	Type of Warehouse	
	Private	
Fixed investment	Very high	
Unit cost	High if volume is low – very low if volume is very high	
Control	High	
Adequacy for product line	Highly adequate	
Flexibility	Low – fixed costs have already been committed	

# Distribution Center



## Checking Your Knowledge

Which of the following statements indicates a reasonable approach to the management of inventory and storage?

- A. “Inventory that sits in a warehouse doesn’t do any harm; besides, it might be needed someday.”
- B. “Inventory and storage costs should be minimized, regardless of the impact on customer service.”
- C. “The cost of stockouts always exceeds the cost of carrying inventory.”
- D. “Always have a large safety stock of inventory to eliminate the possibility of stockouts.”
- E. “Have enough inventory on hand to meet the expected level of customer service required, but don’t carry too much.”

## You should now be able to:

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# Key Terms

- Logistics
- Physical distribution
- Customer service level
- Physical distribution concept
- Total cost approach
- Supply chain
- Electronic data interchange (EDI)
- Transporting
- Containerization
- Piggyback service
- Storing
- Inventory
- Private warehouses
- Public warehouses
- Distribution center