

Innovation in Distribution: A Sustainable Network System in the Competitive Market Place

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Abstract: We do business in a very dynamic environment where the things are frequently changing and marketers are adopting and adapting innovative strategic decisions to tackle the possible threats and avail the potential opportunities. Distribution is one of the most important marketing functions and it is the control of a wide range of activities, which take place after goods have been produced and before they reach the customer, or the next stage of production if they are part of a continuing process. Nowadays marketers are giving due importance to create new methods and processes in distribution system, so that they can strategically add value to customer effectively and efficiently. It is important to business survival and growth but if the new systems are not carried out into practice, inventions are not economically relevant. This article will examine how and to what extent innovation in distribution can help a marketer to build a sustainable distribution network system for the purpose of achieving competitive advantage in a complex market situation.

Key words: Innovation, distribution, sustainable network and competitive market

Introduction

As with all elements of the marketing mix, the ultimate objective of physical distribution management is competitive advantage. The search for a sustainable competitive advantage, however, is becoming increasingly difficult. Researcher pointed out that customers are now seeking more than just brand or product value, and are looking for value in a much wider sense. A critical component of such customer value is service, and a key part of service value is availability. In other words, there is no value in a product until it is in the hands of the customer. Customers often only have a preference for a particular brand, rather than having strong brand loyalty. When that preferred brand is not available, many customers will quite readily choose an acceptable substitute. This is equally true in industrial or consumer markets. For example, the choice of suppliers by just-in-time manufacturer will be hugely influenced by delivery reliability, and not just product quality.

Companies that are responsive to customer needs also need to focus on time as a source of competitive advantage. Basically, the shorter it takes for a company, or indeed an entire supply chain, to do things, the more flexible it can be in response to the market place. Manufacturers should consider the impact of shorter life cycle on new product development. If innovation is a company's key source of competitive advantage, then the time in getting the product to market will be crucial to prevent obsolescence.

Objectives: The distribution (or place) element of the marketing mix, particularly the management of physical distribution, has long been felt to be one of the areas in business where substantial improvements and cost savings can be made. Representing, as it often does, a substantial portion of total costs in a company, the distribution areas has in recent years attracted considerable attention in terms of new concepts and techniques designed to manage better this important function. The management of distribution has now been recognised as being a key part of the strategic management of a company, and in larger organisations it is often the responsibility of a specialist.

The main objectives of this paper are to identify the overall role of distribution and how innovativeness in this sector make the process more effective, efficient and economically relevant. Moreover, the other objectives are to identify the impact of changing marketing strategies in the innovative environment from the viewpoint of cost, time, technology and culture.

Power Balance in Distributive Channels:

The significance of the interfaces of supplier, distributor and consumer is depending now on a number of factors:

- * **Direct Marketing:** The increasing use of direct marketing by manufacturers seeking out consumers other than through traditional outlets
- * **Consumer Patronage:** The increasing promotional and purchasing power of the large retail chain stores seeking to promote consumer patronage of their outlets, often by selling "own brands" or cut-price manufacturer's brands

- * **Growth of Vertical Integration:** The growth of vertical integration in distribution that is, control of two or more successive stages of the distribution chain, especially by large-scale retailing organisations.

Clearly, these developments must affect the extent to which distributive channels can adapt to changing market requirements, since a high degree of centralisation characterises large-scale retailing and the process of integration. The manufacturers' continuing concern is to increase the cost-effectiveness and productiveness of the intermediaries by:

- * Reducing competition from other suppliers,
- * Increasing the demand generating capacity of national promotion,
- * Co-operating with distributors in local promotions,
- * Improving stock turn, stock control and delivery levels to distributors,
- * Offering attractive incentive schemes to distributors to ensure shelf and window space nationally for their brand franchises,

This interface of supplier and distributor highlights the problem of uncertainty in matching buyers and sellers who are separated by distance, and a lack of contract. The requirements of buyers and sellers cannot be matched without contacts between buyers wishing to convert a want into a purchase, and sellers who have something desirable to offer. In his interface with distributors, the consumer does not have to choose between one product and another, but between buying and withdrawing from any purchase at all, thus indirectly ensuring future production of more desirable products.

The Increasing Importance of Distribution in the Trade Channel:

A number of factors have combined to create added importance for the distributor:

- i. Inflationary cost pressure plus a general increase in financial management sophistication and concern for cost efficiencies have forced a harder look by manufacturers at the costs of physical distribution – order processing, field inventories, delivery, production scheduling, etc. In many cases this has resulted in a shift of more physical distribution responsibilities to the distributor.
- ii. Increased product standardisation in many areas (bearings are a good example) has given the distributor relatively more control over the relationship with the end-user customer because the customer has fewer reasons to favour the brands of a specific manufacturer.
- iii. A large number of distributors are performing additional services such as assembly manufacturing (cutting, welding, fabrication, etc.), and contract purchasing for their customers. For example, a saw manufacturer selling entirely through distributors now ships only rolled band saw stock, which the distributor cuts, welds, and finishes, to customer specification for each order. It appears that most distributors perform these additional services as an accommodation for customers rather than as a carefully designed, active element of marketing strategy.
- iv. Increased purchasing sophistication among end-users, especially for MRO items and other frequently used standard items, has resulted in more efficient, more regular purchasing of the standard “80 percent of the order that account for 20 percent of our dollar purchases.”
- v. The trend towards specialisation has also enhanced the distributor's value. Specialisation is generally associated with increased technical competence and product knowledge. The specialist can offer greater depth, including multiple brands, in a given product area. Some general line distributors have agreed to set up specialist departments as a condition for obtaining a leading product line. In other cases, manufacturers report that they are being forced to go to the specialist distributor because of their wide acceptance in certain product areas. Thus there are a number of forces and trends shaping industrial distribution. It must be emphasised, however, that these trends are evolutionary, not revolutionary.

Managerial Innovation and Distribution: The Oxford English Dictionary defines innovation as ‘making changes’. For many managers, innovation means new or better products. Innovation has often been identified as a source of a company's long-term competitive advantage. Indeed, some nations as a whole can be described as more innovative than others, and there appears to be a link between a country's spending on research and development and its economic performance. The innovation factors are helpful for explaining the success of previous managerial innovations in distribution. The following Table 1 provides an overview of the innovations focused on distribution.

Self-service: The depression of the 1930s caused consumer demand for lower prices; this market characteristic, along with automated transactions, prompted the use of self-service. Self-service reduced the number of services traditionally performed by the retailer for the customer; thus, its growth allowed retailers to concentrate on increasing their own wholesaling activities. Additionally, it helped ease the transition into scrambled merchandising, which resulted from the drastic reduction in the number of goods available for sale during World War II. The initial large-scale adopters of self-service, who were the first successful innovators, were primarily large independent

Table 1: Key managerial innovation and distribution

Time Period	Innovation ^a	Operational Change
1900 – 1929	Vertically integrated systems: -Chain store (RD) -Department store (RD) -Mail-order houses (RD)	(1) Wholesale activities performed by the retailer (2) Routine wise transactions (3) Merging of chain store, department store and mail-order houses
1930 – 1949	Self-service (R)	(1) Reduction in consumer services performed by retailer; scrambled merchandising (2) Increasing amount of wholesale activities performed by retailer
1950 – 1969	Contractually integrated marketing systems (MDR)	(1) Increased coordination efforts in both vertical and horizontal integration (2) Movement towards greater efficiency in replenishment efforts
1970 – 1989	JIT (MDR) Quick response (MDR)	(1) Increasing integration between channel players (2) Primary focus on efficiency in production and replenishment, and product and service quality
1990s	ECR (MDR)	(1) Primary focus still on efficiency in production and replenishment (2) Joint efforts to identify and provide market demanded products (3) Movement towards improving the efficiency of promotional efforts

Note: ^a The primary channel members involved in each innovation are indicated by the following classifications:

M: Manufacturer, D: Distribution, R: Retailer

Source: International Journal of Retail & Distribution Management Volume 27, Number 10, p- 398, © MCB University Press, 1999.

retailers. Chain stores had already invested in the traditional grocery store approach and so delayed their entry into **Vertically Integration Systems**: Wide spread growth of the department store, chain store, and mail-order house in the late nineteenth and early twentieth centuries resulted in a shift away from fragmented markets toward vertical integration. The major operational changes that resulted from the growth of vertically integrated systems include an increase in wholesale activities performed by the retailer, and the routinisation of transactions, primarily in the form of fixed prices and required payment with purchase. The fixed price eliminated haggling between the consumer and the retailer, while the required payment with purchase removed the need to handle delinquent payments.

Contractually Integrated Marketing Systems: The two managerial innovations reviewed thus far have concentrated on the actions of the retailer. During the time period of 1950 – 1969 one of distribution's most significant managerial innovations emerged that actually included all three-channel players – retailers, distributors, and manufacturers. Although vertical integration occurred early in this century, the markets were fragmented, with each firm functioning as independently as possible. With the close of World War II came significant declines in profit margins and rates of return on investment a result of increasing competition and rising costs.

Independent wholesalers and retailers faced stiff competition from chain stores, which were able to achieve economies of scale from their size. In addition, coordinating the flow of goods and services was becoming increasingly complex due to scrambled merchandising and advances in management technology. Central coordination between channel players proved to be the most efficient method for obtaining scheduling efficiencies, simplified marketing processes, and economies of scale through horizontal growth. Consequently, contractually integrated marketing systems, such as retail and wholesale buying groups and producer marketing cooperatives saw significant development.

Just-In-Time: Contractually integrated marketing systems, especially franchise systems, continued to develop during the 1970s and 1980s and continue to evolve even today. Thus, the value of joint effort between channel players, which was recognized early in this century, has only increased in its importance. Integration efforts up until this point had primarily involved either the distributor and the retailer, or the manufacturer and the distributor. The 1980s saw the development of quick response; an innovation, which involved coordinated efforts between manufacturers, wholesalers, and retailers.

The evolution of this approach, however, depended upon the previous development of just – in – time (JIT). JIT practice extended coordinated efforts between channel players and gave the concept of customer satisfaction a renewed place in business strategy. JIT demonstrates the first movement toward the use of distribution as a means of achieving market effectiveness, in addition to efficiency. In other words, in addition to cutting costs and increasing the speed of product distribution, i.e. efficiency considerations, these programmes also focused efforts on improving the quality of the product, i.e. effectiveness considerations.

Initially, JIT was adopted by large manufacturers, which used their power over suppliers to reschedule shipments. These early adopters possessed strong financial, human and inter-organisational resources, which were needed for implementing the required operational changes, such as changes in plant layout and set up time reduction, as well as high up-front costs, such as consultants, training, and preventive maintenance. Based on the benefits of JIT for the early adopters, and their ability to ensure its proper implementation, this group appears to have followed the rational choice route to adoption.

If the suppliers are being required to delivered in smaller quantities, more regularly and 'just in time', they are going to need a distribution system appropriate to the scale of their new activities. Similarly, if the day's output is cleared from the production lines in unit loads for immediate dispatch to the customer who has ordered the goods, this again calls for regular deliveries and requires close communication links between suppliers, distributors and customers.

Quick Response: A more recent innovation which incorporates aspects of JIT – quick response – was developed in the mid – 1980s in the general merchandise industries. Quick response, described in its relationship to ECR is a strategy to reduce stock-outs, forced markdown due to overstocks, and operating expenses. The practice is driven by point-of-sale data, which are shared between the retailer and its suppliers. Strong inter-organisational cooperation between channel players, however, is required for this shared information to be used effectively.

The use of point-of-sale data marks a significant improvement over JIT replenishment, which is typically based on sales forecasts rather than real-time access to production schedules. Thus, consumer demand drives joint replenishment efforts. Such data sharing also allows continuous monitoring of customers' purchasing habits for potential new products. Advancements in information technology have made data sharing a key competitive weapon at both the retail and supply levels.

Factors Leading to Wide Diffusion of Managerial Innovation in Distribution: By reviewing the adoption and diffusion characteristics of each of the managerial innovations in distribution through quick response, several generalisations can be made regarding the factors necessary for wide diffusion.

First, with the exception of JIT, all the innovations held a strong efficiency-based relative advantage that was highly observable. These innovation characteristics were capable of overcoming low or moderate compatibility and trial ability, as high complexity.

Second, early adopters of successful innovations are primarily large, holding significant power within the industry. Due to the benefits offered by the innovation for those organisations that adopted early, these firms appear to have followed the rational choice route to adoption. Mid-sized and smaller firms typically follow through a combination of imitation or forced choice.

Third, due to their size, early adopters typically possess strong financial and human resources.

Fourth, from the development of contractually integrated systems up through quick response, successful innovation has required strong inter-organisational resources. This is primarily due to increasing integration between channels players required by managerial innovations in distribution.

Innovation of Internet and Contribution to Sales and Distribution Channel: Companies that include on their Internet sites information about products, prices, and a means to order have a sales channel at their disposal at a relatively low cost. To complete the sales cycle, such companies can align with express delivery services to get orders to customers. Of course, the Internet can be used as a complete distribution channel for certain products (e.g., newspaper, software) and services (e.g., stock trading, travel). When the Internet should be used only as a communication medium, including helping people located the nearest available source for products, or as both a communication medium and a sales-distribution channel needs attention. In certain situation, use of the Internet as only a communication medium is likely to be appropriate. Manufactures using an exclusive or highly selective distribution intensity approach where local dealer investments are crucial should likely stay away from using the Internet as a sales-distribution channel. When a product' s price varies considerably across global markets, limiting the Internet' s scope appears wise. Furthermore, where different firms hold trademark rights to the same product, depending on the global market, restricting the Internet to a communication role appears appropriate. For examples, Hasbro holds trademark rights to the Scrabble game in North America, while Mattel holds those same rights in all other global markets. As a result, neither firm uses the Internet as a sales channel.

Use of the Internet as a sales-distribution channel by manufacturers and service providers is leading to the failure of many intermediaries and consolidation in many industries, especially in service-related industries. At the same time, the Internet is being embraced by intermediaries in other industries as a sales-distribution channel and contributing to their success. Research is clearly needed that examines the impact of the Internet as a sales-distribution channel on industry structure.

Innovation of Internet and Retailers Perception: The key issues relating to Internet adoption were addressed through the programme of interviews. Retailers were specifically questioned about the factors that affected their utilisation of the Internet as a retail channel. The flexible interview format allowed other relevant issues to be probed as and when they occurred. This strategy generated a rich source of data containing details of the Internet adoption approach of 20 leading UK retailers. Having interpreted the textual transcript using *in vivo* codes, and their associated frequencies, it was possible to organise these into a taxonomy of the factors affecting Internet adoption. For clear understanding of the results, a structure of the taxonomy, and some key definitions, have been presented in Table 2.

The internal factors affecting the use of the Internet as a retail channel have been presented in Table 3. The importance of issues contributing to the evolution of a clear and coherent strategic vision, guiding Internet adoption, was frequently raised. Many retailers identified the disposition of the senior management as important. Most of the retailers identified the need for assessment strategies because the level of "uncertainty" involved in using the Internet reportedly inhibited the development of strategic plans. Lack of knowledge about how it will develop, its impact on trade and the perception that it is an unproven domain are reported to be constraining retail investment in online operations. Current online trials leave retailers struggling to evaluate the effectiveness of their Web operations. The absence of a method to translate Web site visits into accountable information inhibits the Internet growth as a retail channel.

Opting for an On-Line Strategy: There are a number of strategies that bricks and mortars retailers have adopted in taking up the on-line challenge. They may not all be sustainable. Only time will tell which strategy is the best for retailers to adopt.

A Standard On-Line Service: This is the most basic and currently most prevalent strategy. It is also probably the least thought through the retailer may offer all or part of their merchandise on-line. Distribution may be limited. The level of customer service may not be comparable with e-tailers. Examples of this strategy include many of the high street book music stores, supermarkets and department stores.

An Integrated On-Line Service: To various degrees the on-line service is combined with the physical store. The retailers utilise their physical presence, which in turn encourage the customer to continue to visit the store. Retailers also integrate on-line facilities into the real store environment, creating kiosks, cafes or lounges where shopping orders can be placed. For example Gap, the retail-clothing store or Karstadt, the German retail department store, which has developed Cyber@rs cafes in-store. Customers come to eat and drink but also use the café to surf the web and order their shopping on-line.

Table 2: Taxonomy of factors affecting the development of the internet as a retail channel

	Internal Factors	Environmental Factors	Relative Advantages
Major Categories			
Definitions	Factors resulting from or belonging to a process, activity or member of personnel over which the company has complete control	Factors resulting from or belonging to a process, activity or member of personnel over which the company does not have direct control	Circumstances where Internet relating offers a comparative advantage / disadvantage, in comparison with traditional relating methods
Sub-categories	<ul style="list-style-type: none"> -Appropriate product -Resources availability -Strategic vision -Assessment strategy 	<ul style="list-style-type: none"> - Market for Internet trade -Competitive position -Technological consideration 	<ul style="list-style-type: none"> -Market development opportunities -Technological capabilities -Financial potential -Marketing opportunities -Ethical considerations

Source: Cyber retailing in the UK: the potential of the Internet as a retail channel, by- Doherty, Chawick and Hart, International Journal of Retail & Distribution Management Volume 27, Number 1, p- 29, © MCB University Press, 1999.

Table 3: Internal factors

	Facilitators no. of Respondents	Inhibitors no. of Respondents
Strategic Vision:		
-Management disposition	11	9
-Vision of the Internet in retailing	4	8
-Internet development plan	7	7
Assessment Strategy:		
-Difficulty in assessing the impact of the Internet (uncertainty of the potential/complexity of assessment process)		17
Resources Availability:		
-Logistical infrastructure	11	9
-Technological infrastructure	7	
-Internet development skills	8	12
-Human resources	5	7
-Financial resources	10	5
Appropriate Product:		
-Product suitability for online retailing	13	8
-Legal and trading restrictions relating to the product		8

Source: Cyber retailing in the UK: the potential of the Internet as a retail channel, by- Doherty, Chawick and Hart, International Journal of Retail & Distribution Management Volume 27, Number 1, p- 29, © MCB University Press, 1999.

Internet-Only Operation: Retailers who have opted for one business strategy vs maintaining two and moved all their business online. For example, Egghead, the discount retailer of computers and software. In 1998, they completely closed down their physical stores and became an internet-only business. Their reason: to concentrate all their resources on making an e-based strategy successful.

Creation of an On-Line Subsidiary: Retailers remain in both the physical and virtual worlds. A subsidiary company has advantages. It gains benefit from its established, physical parent. It is more flexible. And is not hampered by existing strategies.

Horizontal Co-operation: Retailer competitive in the physical world, combine resources to create a joint service on-line. For example, in Japan four major companies, of which only one is a bookstore to compete with Amazon.com. Many of the other examples are in industries where Internet only operations are already strong.

Vertical Co-operation: Manufacturers actively help their retail partners to provide a better customer service operation on and off the net. Kraft in the US with many of their grocery outlets is a good example.

Convergence: The most recent strategy emerging is direct co-operation with internet-only companies. Just as physical retailers are realising they need to be on-line Internet retailers realising they may need to have a physical presence. For example, Walt Disney, have just taken a stake in toysmart.com. eBay has acquire Butterfield, a firm of auctioneers. Drugstore.com has sold a share of Rite-Aid, a large US drugstore.

Conclusion

Market orientation is the extent to which a firm focuses deeply on the needs and preferences of end customers, as well as cantering on competitor initiatives. The market orientation of the supplier organisation is positively related to the market orientation of the distributor and distributor commitment to the dyadic exchange relationship. How distribution channels are organised and managed will likely influences the market orientation of entire industries as well as individual firms therein. Therefore, additional research on market orientation in a channels context is critically needed. The researchers argue that channels bonding capabilities are valuable to market-driven organisations, as they promote market sensing and intelligence sharing within the channel system. Empirical research into these possibilities would be valuable. The influence of electronic sharing of various types of data and intelligence on channel relationships needs to be examined as well. High levels of electronic data interchange are transforming the nature of many channel relationships and are fundamental to the success of efficient consumer response (ECR) systems, such as the one implemented by P&G with many retail chains.

ECR followed a similar route to development as that followed by quick response. The innovation's concepts were developed in the early 1990s by a combination of industry trade associations and the consulting group, Kurt Salmon Associates, Inc. This united effort was made in response to increasing competitive pressure in the grocery industry, due to an increase in private label products and alternative retailers e.g. warehouse clubs and super centres. ECR consists of four distinct but related principles, which are, efficient store assortments, efficient replenishment, efficient promotion and efficient product introductions. Electronic sharing between channel members may be especially crucial for channel systems facing high environmental uncertainty and competition. Under such conditions, the need for current data and intelligence is likely to be great.

While electronic sharing of data and intelligence has led to a strengthening of many relationships, many manufacturers have tried to substitute such technology for boundary personnel in an attempt to reduce selling and coordination costs. Such a cost reduction strategy may be appropriate under certain conditions but is likely to lead to weaker channel relationships. Research is needed that explores how the adoption of new technologies in conjunction with decision within the firm affects the strength of channel relationships. The aims of the supply chain to the consumer are to provide an offer that the consumer will value and buy in preference to alternatives. This value is created by products and by the way in which time gaps, space gaps, quantity gaps, and variety gaps are bridged. The various combinations perform these functions with manufacturers and retail and wholesale intermediaries, with considerable structural variations between channels depending on the characteristics of products and markets. Valuable functions are also performed by third party logistics companies, which organise transport and storage. Supply chain have been changing as a result of the emergence of large powerful retail businesses that have more wished to take more control over the operation of the supply chain, but changes have been greatly facilitated by developments in IT. For this reason, channel management requires an understanding of the way in which supply chain functions can be integrated and coordinated among members. Marketing channels will continue to be dynamic and rapidly changing of the continuing impact of new information technologies.

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