

CHAPTER TWELVE

Distribution Customer Service and Logistics



www.mhhe.com/fourps

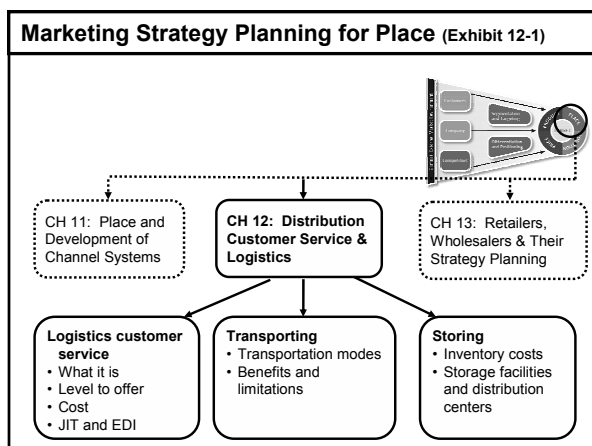
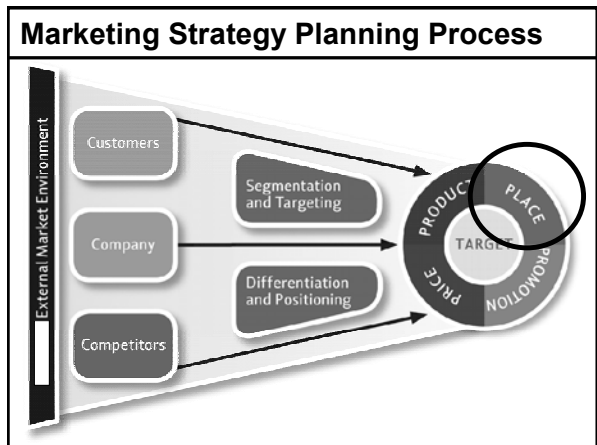
For use only with
Perreault/Cannon/McCarthy
or Perreault/McCarthy texts.
© 2008 McGraw-Hill
Companies, Inc.
McGraw-Hill/Irwin

When we finish this lecture you should

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.

When we finish this lecture you should

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.

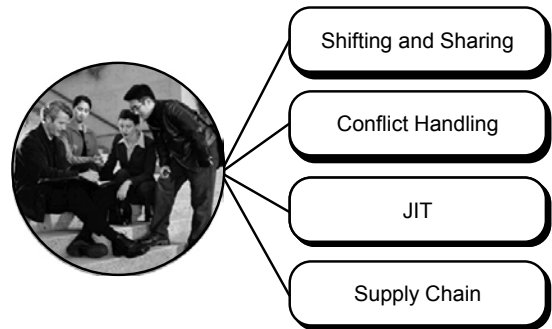


Checking your knowledge

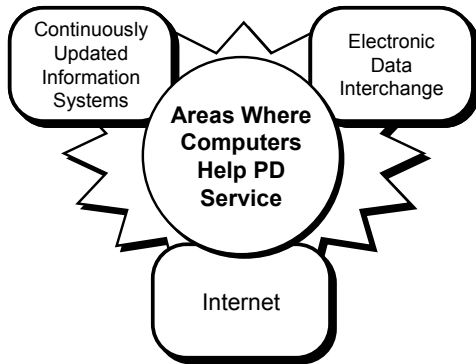
A manufacturer of accessories for personal computers evaluates all the alternative systems combining order processing, transportation, inventory management, and storage. If the total cost approach is followed, which physical distribution system should the manufacturer select?

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

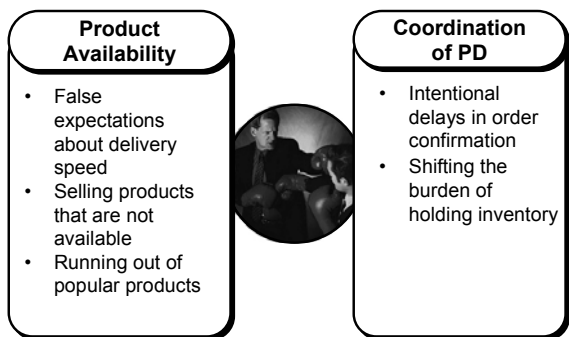
Coordinating Logistics Activities



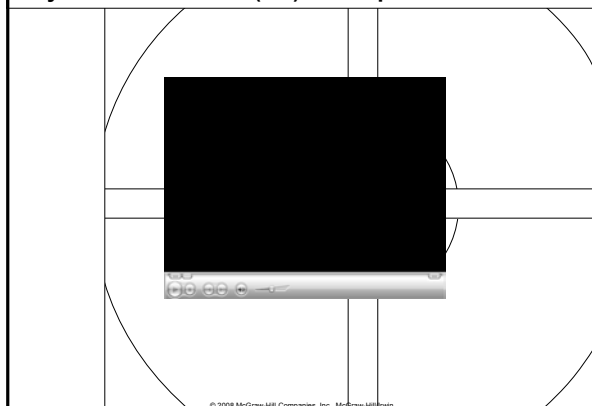
Better Information Helps Coordinate PD



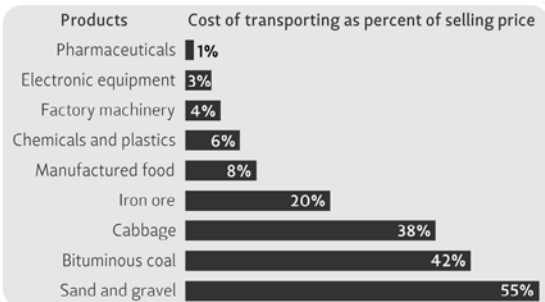
Ethical Issues May Arise



Physical Distribution (PD) Concept



The Transporting Function Adds Value to a Marketing Strategy (Exhibit 12-5)



Which Transporting Alternative Is Best? (Exhibit 12-6)

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



Airfreight Is Expensive but Fast and Growing



Interactive Exercise: Transportation Modes

Transportation Modes



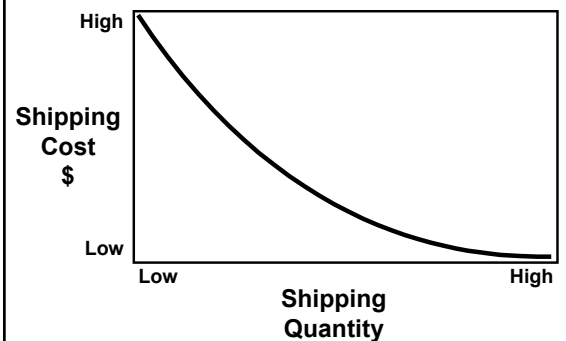
© 2008 McGraw-Hill Companies, Inc. McGraw-Hill/In

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.

Economies of Scale in Transporting



The Storing Function and Marketing Strategy



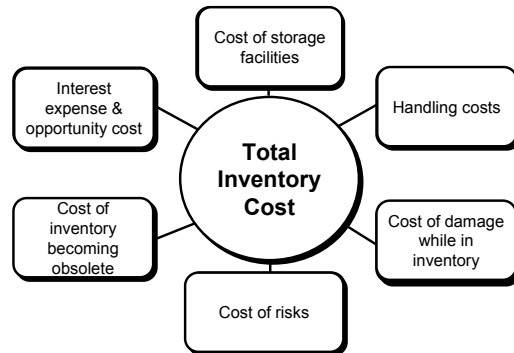
Needed When
Production Doesn't
Match Consumption

Keeps Prices Steady

Achieves Production
Economies of Scale

Builds Channel
Flexibility

Total Inventory Cost (Exhibit 12-7)



Specialized Storing Facilities May Be Required (Exhibit 12-8)

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

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 now

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.

You now

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.

Key Terms

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