

EXERCISES

For many businesses, channels play a small part in their marketing plans. The route to market, whether direct or indirect, tends to be taken for granted – ‘the way we do things in this industry’. When channels are considered, the prime concern in the goods sectors seems to be the physical aspects – the logistics of getting goods transported from the company to the customer. In services contexts, the main concern seems to be making use of low-cost channels – indeed a golden opportunity, but cost is only one of several considerations.

The exercises in this section provide a broader view of channels for marketing, sales, service and distribution.

Exercise 10.1 helps you to think through how to make the best use of your most expensive channels with a coverage map.

Exercise 10.2 helps you to decide whether or not intermediaries are required in your type of business.

Exercise 10.3 explains how intermediaries might be selected.

Exercise 10.4 addresses the physical aspects of distribution.

Exercise 10.5 is designed solely to get you to think about your own customer service from the customer’s point of view.

Exercise 10.6 looks at the total customer service package and will enable you to check how yours compares with those of your competitors, and, equally importantly, what steps you will have to take to improve your competitiveness.

Exercise 10.1: Developing a coverage map

A coverage map helps you to think through how different channel combinations will be used for different products and markets, in order to lower costs, improve customer experience and/or improve market coverage. This exercise asks you to develop a current and future coverage map as a basis for the multichannel plan.

You should be warned that it is not a quick exercise. To properly follow these steps to developing a multichannel plan will probably take several workshops with key colleagues, and someone will need to collect inputs from customers in between. It may, however,

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transform your business! Having said that, even a quick attempt on your own will prove illuminating and demonstrate the value of a more thorough exercise: we recall one business whose performance was vastly improved through a coverage map that one of the authors brainstormed with the marketing director on a short-haul plane journey!

First, review the section 'Selecting marketing channels' earlier in this chapter. Then proceed as follows.







1. List your key needs-based customer segments. If in doubt, see Chapter 4.
2. Draw up channel chains for how each segment currently buys your products and services. *Note:* these may differ for each major group of products/services. See Figure 10.3 for an example of channel chains. You may, of course, need to talk to some customers to complete this step!
3. Now summarize this analysis with a current coverage map, using the worksheet below:
 - (a) List products or services along the top, in order of the complexity of the sales process, with simple ones to the left.
 - (b) List markets or segments along the side, with highest value segments at the top.
 - (c) Choose a name for each major channel chain (see Figure 10.3 for an example). Channel chains may, for example, be named after the 'leading' channel in the chain – for example, see Figures 10.4 and 10.5. Choose a colour for each. Fill in each cell with the requisite colour, and add a key – e.g. see Figure 10.4. Some examples are provided on the worksheet: add or replace these labels as required.
4. Now consider whether this coverage map can be improved. For example:
 - (a) Are your most expensive, high touch channels (e.g. sales visits or face-to-face retail outlets) being used where they are most needed – for highly complex sales – and where they are most justified – for highly valuable customers?
 - (b) Are you making appropriate use of low cost channels (e.g. internet or call centres) for simple transactions and/or lower value customers?
 - (c) Even where high cost channels are needed, are they needed for the whole of the customer journey, or can a channel chain be drawn up that uses lower cost channels for part of it?

Draw up a revised future coverage map to reflect your conclusions, along with revised channel chains for each area of the map.

5. Optionally, use the channel curve technique to check out how well your proposals will meet customer buying criteria.
6. How might you pilot any changes you recommend?

Worksheet Coverage map (Exercise 10.1)

	Offer A	Offer B	Offer C	Offer D	Offer E	Offer F	Offer G
Segment A							
Segment B							
Segment C							
Segment D							
Segment E							

 Face to face sales	 Call centre	 Online	 Distributor	 3rd party integrator	 Other
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Exercise 10.2: Do we need channel intermediaries?

At first sight, the choice of channel is deceptively easy. After all, basically there are only three options from which to choose:

1. To sell direct to the customer/user
2. To sell to customers/users through intermediaries
3. To use a combination of 1 and 2, i.e. dual distribution.

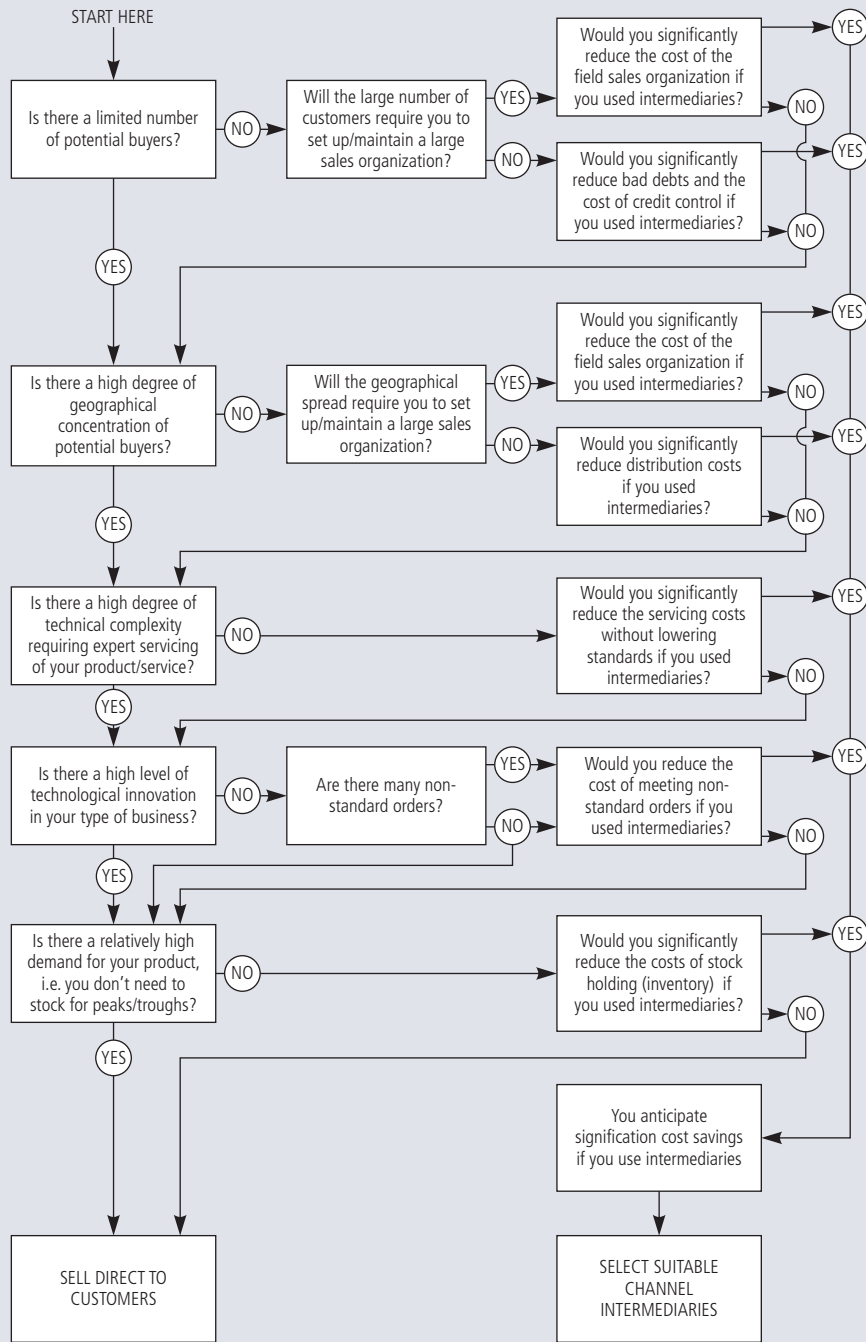
The final choice will always be something of a compromise, with, on the one hand, the desire to keep control of the distribution of one's products or services, and, on the other hand, the practical need to keep channel costs to a bearable level.

The worksheet is designed to help you to make a choice about channels of distribution. This is what you do:

1. Take each product/service in your portfolio in turn and subject them to the algorithm given on the worksheet.
2. Note the decision for each product, i.e. sell direct or use channel intermediaries. Do these seem the best decisions or can you see good reasons for ignoring them?

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Worksheet Distribution channel algorithm (Exercise 10.2)



- In working through the algorithm, can you see a case for dual distribution for some products or services? For example, do you sell direct to some customers or regions and sell through intermediaries to others? Remember the major problem associated with dual distribution is determining a fair division of the market between yourself (as the supplier) and the intermediary.

Exercise 10.3 Selecting a suitable intermediary

Exercise 10.2 helped to answer the question of whether or not an intermediary is required. Assuming the answer is affirmative, you are now faced with selecting a suitable candidate to play that role.

The worksheet should help you in your decision making. Here are the instructions for using it:

- Make a note of organizations that, on the surface, appear to be possible choices as intermediaries. (You will see that the worksheet allows for comparisons between just three prospective intermediaries. You should, of course, draw up your own form to include as many as you like.)
- Looking at the list of evaluation criteria, take criterion 1 and apply it to all the prospective channel intermediaries. Place scores in columns A, B and C – a number between 0 and 10, depending on whether the intermediary is a very poor fit against this criterion (zero score) or an extremely good fit (10 points).
- Continue down the list of evaluation criteria, repeating this scoring process.
- Add any further criteria that are relevant for your business to the bottom of the list and score them likewise.
- Add up the scores in each column. The highest total represents the most suitable intermediary.

You may decide that some criteria are more important than others on this list. In this case use a points weighting system which takes importance into account. An example of a weighting system is given in Exercise 4.2.

Worksheet Criteria for selecting intermediaries (Exercise 10.3)

<i>Evaluation criteria</i>	<i>Prospective intermediaries</i>		
	<i>A</i>	<i>B</i>	<i>C</i>
1. Currently deals with our target market segment			
2. Is prepared to deal with target market segment			
3. Sales force is sufficiently large			
4. Sales force is well trained			
5. Regional locations well positioned			
6. Promotional policies consistent with ours			
7. Budgets are adequate			

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Evaluation criteria	Prospective intermediaries		
	A	B	C
8. Can provide customer after-sales service			
9. Product policies consistent with ours			
10. Does not carry competitor lines			
11. Prepared to carry adequate stocks			
12. Prepared to carry range/cover			
13. Suitable storage facilities			
14. Is creditworthy			
15. Management attitudes compatible with ours			
16. Has suitable reputation (Add others that are relevant)			
17. _____			
18. _____			
19. _____			
20. _____			
21. _____			
22. _____			
23. _____			
24. _____			
25. _____			
26. _____			
27. _____			
28. _____			
29. _____			
30. _____			
TOTAL			

Exercise 10.4 Physical distribution facilities

It has been shown that there are five areas to be considered when it comes to physical distribution, the so-called 'distribution mix'. They are: facilities, inventory, transport, communications, and unitization.

Having established the level of customer service required by each market segment, you must reappraise the location of your own plants and warehouses in order to ensure they are situated in geographically suitable positions *vis-à-vis* the customers. If the nature of demand and the location of major customers are forecast to change dramatically, then relocating manufacturing units and/or warehouses is an option that, in the long term, can lead to savings due to reduced distribution costs.

Such decisions cannot be taken lightly. For most organizations their facilities are taken as fixed, certainly in the short term.

Inventory

The holding of stock, whether by design or accident, is always a costly business. Therefore it is important to know the comparative costs of holding stocks of different products in order to arrive at a sensible stockholding policy.

Worksheet 1 enables you to calculate the various components of inventory cost for each of your major products and thereby produce the necessary cost data. Once in possession of this information, it might become necessary for you to revise the customer service package or indeed earlier deliberations about channel intermediaries.

Transport

This is the area that many people are familiar with, and, as such, has traditionally received most management attention. Worksheet 2 shows a typical way of calculating the merits or demerits of various forms of transporting goods to customers. Try it, using some of your own products as study vehicles.

While cost is an important determinant in the choice of transport, frequency of service and reliability are often just as important. Regular monitoring of transport costs is to be recommended if distribution costs are to be held in check.

Communications

It is often overlooked that accompanying the flow of materials through the distribution channel there is also a flow of information in the form of orders, invoices, demand forecasts, delivery schedules, etc. Each of these 'communications' is likely to be an integral part of your customer service package, and yet, in all probability, they were set up for your own company's administrative convenience.

Look at all your communications associated with distribution and put yourself in the customer's shoes. For example, how sensible does your ordering system seem when viewed from the other end? Get out and speak to some actual customers and seek their views. Anything that can be done to simplify or speed up communications must be to your company's benefit – and it doesn't have to cost you money to improve the situation.

Unitization

Assess whether or not it is possible to make your products more acceptable to users or intermediaries, e.g. for handling or stacking, by packaging them into different sized units such as shrink-wrapped bulk packs, pallet loads, container loads, etc. It is often possible to win substantial cost savings in terms of handling or warehousing by considering this aspect of distribution.

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Worksheet 1 Comparative inventory costs (Exercise 10.4)

<i>Area of cost</i>	<i>Product</i>				
	(1)	(2)	(3)	(4)	(5)
Warehouse costs (rent, rates, heat, light, etc.)					
Labour costs					
Losses/shrinkage					
Deterioration/damage					
Insurance					
Interest (on funds tied up in stock)					
Administrative costs					
Other costs relevant to your specific business					

For the purpose of this worksheet take the cost per item, or unit; or you can, if you prefer, just express the costs as a percentage of the book value of the stock.

Worksheet 2 Comparative physical distribution costs (Exercise 10.4)

<i>Method of physical distribution</i>	<i>Product/service</i>				
	(1)	(2)	(3)	(4)	(5)
Use own transport					
Contract hire					
Use carriers					
Other forms of road transport					

Passenger rail train					
Freight train					

<i>Method of physical distribution</i>	<i>Product/service</i>				
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>
Red Star Parcel					
Other forms of rail transport					

Boat on deck					
Boat in hold					
Sea Cat					
Others forms of sea transport					

Air parcel					
Air freight					
Other forms of air transport					

1st class post					
2nd class post					
Parcel post					
Other postal methods					

Other transport methods					

Exercise 10.5 Customer service audit*

Before getting into more detail about customer service, start by completing this customer service audit. If you have ‘No’ in more than three questions, or if you have difficulty answering

* This exercise is based on an audit constructed by Professor Martin Christopher of Cranfield School of Management, and is used with his kind permission.

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the open-ended questions, you may have a serious customer service problem in your organization. It is preferable if you can complete this exercise for each segment of the market in which you compete.

1. Do you have a written customer service policy?
Yes _____
No _____
2. Is this given a wide circulation within the company?
Yes _____
No _____
3. Do customers receive a copy of this policy?
Yes _____
No _____
4. What are the three most crucial aspects of customer service as they impinge upon your marketing effectiveness?
1 _____
2 _____
3 _____
5. Is any attempt made to monitor your customer service performance on these three dimensions?
Yes _____
No _____
6. Do you monitor competitive customer service offerings?
Yes _____
No _____
7. Do you believe that within your company there is adequate knowledge of the true costs of providing customer service
Yes _____
No _____
8. Which function(s) has responsibility for customer service management?

9. Where does customer service management fit in relation to the marketing function?
(Draw an organizational chart if necessary.)

10. Do you have an established method of communications for your customers to contact you about some aspect of their order after the order has been entered?
Yes _____
No _____

11. (a) Do you have a single point of contact for customers or (b) do certain departments handle different types of inquiries/complaints?

Yes (a) (b)

No (a) (b)

12. What do you think are the major areas of weakness in your current approach to customer service management?

Exercise 10.6 The customer service package

Customer service has been defined as the percentage of occasions the product or service is available to the customer *when* and *where* he or she wants it. Obviously, to operate service levels at 100 per cent might, and often does, impose a crippling cost on the supplier, yet to drop below an acceptable level is to surrender one's market share to a competitor.

Research has shown that to improve one's service level by even a small amount when it is already at a high level can become expensive (the law of diminishing returns). Therefore the marketer will have to be certain about the actual levels of customer service provided and to have a greater understanding of customer expectations and needs. It will be highly likely that different market segments will require different levels of customer service.

The ultimate choice of service level for a specific product will be tempered by other influential factors:

1. The contribution to fixed costs, e.g. can it bear the cost of an upgraded service level?
2. The nature of the market, e.g. are there substitute products?
3. The nature of the competition, e.g. do they offer better service levels?
4. The nature of the distribution channel, e.g. do we sell direct or through intermediaries?

The key to marketing success is for your company to develop a customer service package – one that embraces product availability, with attractive order cycle times, and mechanisms for minimizing customer inconvenience arising from order cycle variations.

The worksheet is designed to help you to arrive at a more competitive customer service package or, if this is too expensive, to devise an alternative. The instructions are provided on the worksheet. The space below is for any notes you might wish to make about these issues.

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Worksheet Developing a customer service package (Exercise 10.6)

Take one of your market segments and decide what would make the best 'package' by putting a tick against the appropriate items in column 1, i.e. what does your marketing strategy suggest?

In column 2 tick the items that go to make the best competitor package.

In column 3 estimate if the provision of your item is *Better*, *Equal* or *Worse* than the best competitor.

In column 4 indicate the relative cost of improving where you compete unfavourably with the best competitor, i.e. *High*, *Medium* or *Low*.

In column 5 list improvement actions to upgrade the service package to match the best competitor.

In column 6 consider alternative packages, i.e. to fight on different grounds.

Repeat this process for all other market segments.

	(1) <i>Market strategy suggestions</i>	(2) <i>Best comp.</i>	(3) <i>Better, Equal, Worse</i>	(4) <i>Comp. cost H, M, L</i>	(5) <i>Actions to upgrade cust. serv.</i>	(6) <i>Alt. Package</i>
Frequency of delivery						
Time from order to delivery						
Reliability of delivery						
Emergency deliveries when required						
Stock availability						
Continuity of supply						
Advice on non-availability						
Convenience of placing orders						
Acknowledgement of orders						
Accuracy of invoices						
Quality of sales representation						
Regularity of calls by sales reps						
Monitoring of stock levels						
Credit terms offered						

<i>Components of customer service</i>	<i>(1) Market strategy suggestions</i>	<i>(2) Best comp.</i>	<i>(3) Better, Equal, Worse</i>	<i>(4) Comp. cost H, M, L</i>	<i>(5) Actions to upgrade cust. serv.</i>	<i>(6) Alt. Package</i>
Handling of customer queries Quality of outer packaging Well-stacked pallets Easy-to-read use-by dates on outers Clear handling instructions on outers Quality of inner package for handling Quality of inner package for display Consultation on new developments, e.g. products or packaging Regular review of product range coordination between production, distribution and marketing Add others which are relevant for your business _____ _____ _____ _____						