Chapter 9

THE MULTICHANNEL PLAN: THE ROUTE TO MARKET

SUMMARY

- How channels are combined in the customer journey
- How to select the most appropriate channels
- The several components of the distribution mix
- Customer service and customer experience
- How to prepare a multichannel plan
- Exercises to turn the theory into practice

INTRODUCTION*

Our third chapter on different elements of the marketing mix builds on the previous chapter on personal selling. For many companies, sales occur not just through personal selling but also through a variety of other channels, from agents and distributors to direct sales online and by telephone. For some companies, indeed, personal selling has disappeared entirely. Furthermore, each of these channels can be crucial for service delivery.

For years, Place (route to market) was the dull, neglected P of the famous 4Ps of marketing. Companies' distribution policies were driven by mechanistic cost analysis: shipping and storage configurations, trade-offs between holding cost and the risk of being out of stock, and so on. But by the 1990s, new technology was changing the thinking on channels. Evans and Wurster[1] noted how economic value was being split into physical and virtual (information) streams: the traditional economic trade-offs still held for physical distribution of goods and services, but the virtual stream of information exchange defied these rules. Internet experts advised companies to rethink Place as 'spaces' not 'places'. In the early days of such dot-com thinking, strategy

* The authors are grateful to Dr Stan Maklan, Rod Street, Lindsay Bruce and many other colleagues at Cranfield and IBM, as well as the blue-chip members of the Cranfield Customer Management Forum, for their significant contributions to our thinking in this chapter on the place of channels today and how marketers need to respond. The introduction is based on material by Dr Stan Maklan.

focused on using the new Internet channel to disrupt existing business models, and new words such as disintermediation, content aggregation and search entered the strategic lexicon.

New, online channels spawned some significant successes based upon 'pureplay' information-based strategies, such as Amazon, eBay, Google and Facebook. However, the majority of the economy is still dominated by companies that need to integrate new channels into a traditional distribution model. Wal-Mart is not closing all its stores to better leverage new channels, while Apple has come full circle by investing successfully in physical stores to complement its telephone and Internet channels.

Concurrent with the evolving distribution landscape, customer behaviour has changed, as evidenced by the ever-increasing share of purchasing over the Internet and mobile devices. During the dotcom boom, however, many companies mistakenly segmented their customers into those that buy online versus traditional channels. As Alan Hughes, chief executive of UK bank First Direct at the time, put it:

> Customers are only too delighted to use a low-cost channel when it's right for the job, but there are other times – such as when they have a complaint – when they would be mad not to roll out the cavalry of warm human contact.[2]

It turns out that there are few 'online customers'; rather, most customers want to conduct some of their exchanges with suppliers online. When offered a choice of channel, customers will use multiple channels, each dependent on the job that they wish to get done.

And neither is the challenge of channel design restricted to the issue of online versus offline channels. Equally, the maturing of call centre and CRM technology raises questions for firms such as: Should we replace field-based salespeople by desk-based account managers (DBAMs)? Can we divert some of the burgeoning call centre traffic to the web? And how can we ensure that the customer's multichannel experience is joined up across multiple channels, so the salesperson knows about a complaint that was made on the web yesterday?

Channels, then, have far more importance than simply the issue of physical distribution, important though that is in the goods sectors of the economy. Revising multichannel strategy offers a vast opportunity to expand market coverage, save costs or improve customer experience. But it is full of pitfalls, and simply following the crowd is hardly likely to lead to competitive advantage.

In this chapter, we discuss how to form a multichannel strategy. However, those readers who believe they already know enough about channels and CRM, and who are principally concerned with the preparation of a strategic marketing plan, can go straight to Chapter 12, although we do urge readers to read the section in this chapter on customer service and experience.

The multichannel plan involves three main decision areas, each of which will be examined in turn:

1. Through what marketing channels do we reach our customers (or what channels do our customers utilize to acquire our products)?
2. In the case of goods, how is the physical movement of our product organized?
3. What service and experience attributes does our customer require (and how well do we meet this requirement)?

SELECTING MARKETING CHANNELS

Three Common Pitfalls

Before we describe how to choose communication channels, we must first point out three common approaches which do not work.

1. Offering all channels to all customers

Some companies misunderstand the importance of channel integration as meaning that we should offer all channels to all customers: face-to-face meetings whenever they want, call centres, an online community, a call-back button on the website, and so on. Needless to say, this is a sure-fire way to go bust! Even large, well-resourced organizations cannot keep adding channels indiscriminately to their overall customer management mix.

> Some of the banks adopted this policy in the early 2000s, and soon found themselves unable to compete on price with competitors targeting specific segments with specific channel strategies – online specialists such as Egg, phone-and-web providers such as Direct Line, IFA specialists such as Skandia, and so on. Organizations need to make choices and, as in all other areas of business, allocate scarce resources to competing ends.

2. Allocating high value customers to the most expensive channel

Many companies think that the art of channel management is to identify profitable customers in order to serve them across many channels, while forcing unprofitable customers to change their behaviour in order to make them profitable, or accepting that they will leave and become someone else's unprofitable customers. Many banks, for example, allocate personal relationship managers to customers on the basis of their current balance of funds managed.

There is some logic in this approach, but it is only half right. Just because a customer is currently profitable it does not necessarily follow that offering extensive channel choices is an optimal policy: companies often over-service high revenue customers thus sacrificing profit needlessly and making them vulnerable to new entrants who have a lower cost channel structure. Equally, even seemingly unprofitable customers who do not wish to have a long-term relationship with the company can nevertheless be served profitably, and they can often be nudged gently towards use of lower cost channels without damaging their customer experience. Too many firms leave lower value customers feeling unwanted as they pursue obvious high value customers that all of their competitors target with equal vigour.

3. Allocating customers to single channels

The problem we have just described is actually a subset of a bigger problem in the way firms think about channels. Customers should not be allocated to channels at all, as they will typically use different channels at different stages of their journey with the firm: social networks or industry conferences for initial exploration, the website for further information, phone calls to company experts to check on the fit to the customer's requirements, face-to-face meetings to negotiate, and so on. Yet many companies appoint channel barons and give each a profit target, as if the customer meekly stayed within one channel throughout their journey.

Developing a Multichannel Plan

Below, then, are six simple steps which the marketer can take to develop a more rational channel strategy. They are based on Cranfield's work over a number of years with the blue-chip members of the Cranfield Customer Management Forum, such as HSBC, BP, British Gas, and IBM. The steps are summarized in Figure 9.1. For further details of these tools, the reader is referred to the Forum's website at www.cranfield.ac.uk/ccmf or the book *The Multichannel Challenge*.[3]

Step 1. Segment far enough along the market map

Market maps show the full extent of where an organization sits in the market and how the enterprise is connected to its end customers. We discussed market maps in Chapter 3. The map may

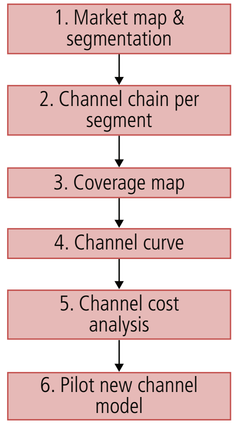


Figure 9.1: Developing a multichannel plan.

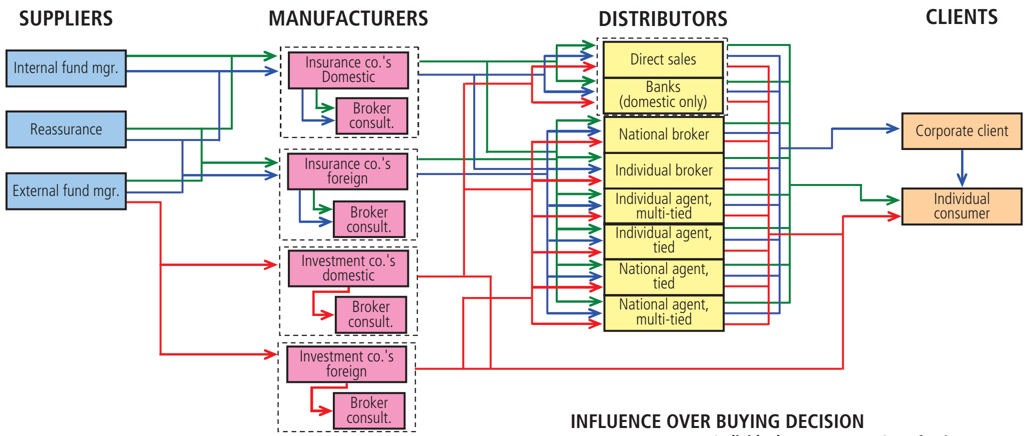
be redrawn as a result of the multichannel planning process, but the first step is to understand the current market map. In particular, we need to look far enough along the map towards the end customer when segmenting the market, as we may decide in the channel chain analysis which follows that the indirect channels we are currently selling through will be replaced or complemented by other routes to market. The first web boom was driven by a large swathe of businesses trying to disintermediate existing participants, and even now without a proper base of analysis in this area it is possible to have missed whole segments of the market that might otherwise be profitably addressed.

The end customer is often the consumer, but it may equally be businesses in the case of IT suppliers, telecommunications companies, and so on. For channel strategy purposes, segmentation needs be done at the furthest point in the map towards the end customer where a significant proportion of the buying decision is taken. Generally, this means segmenting at the level of the end customer. This is illustrated in Figure 9.2 for an insurance company. The map shows its route to market for a particular country in mainland Europe. Below the map is a table showing who influences the buying decision, according to estimates by the company on the basis of market research.

In this example, all types of customer are most heavily influenced in their buying decision by the distributor, which may be a broker, agent, bank or direct sales representative. But whether the customer is a consumer or a corporate client, the distributor has a much easier job recommending a particular insurer if the end customer has heard of the insurer and has a positive image of it. So, a proportion of the decision – ranging from 10 per cent for consumers to 25 per cent for businesses – is thought to be made by the customer as a result of other influences – advertising, the Internet, and so on.

In this situation, segmentation at the level of distributors is certainly relevant for many purposes. But for forming channel strategy, the end customer needed also to be segmented, to evaluate whether their needs could better be served by a different route to market.

Having decided who our customers are, we then need to segment them. The best form of segmentation for forming multichannel strategy is one based on different customer needs or buying criteria: we described how to form a needs-based segmentation in Chapter 3. Once needs-based segments are understood in detail, it may rapidly become intuitively clear what channels or channel combinations will best suit each segment. The insurance company's market for annuity products is segmented as shown in Figure 9.3.



INFLUENCE OVER BUYING DECISION

Distributors	Influencers	Individual	Corporate	Direct fund
70 %	Broker consultant	N/A	2 %	N/A
N/A	Distributor	90 %	75 %	75 %
10 %	Editorial	5 %	5 %	10 %
5 %	TV; pers. finance	2 %	2 %	5 %
5 %	Internet	1 %	1 %	5 %
10 %	Advertising	2 %	2 %	3 %
0 %	Professionals	0 %	10 %	2 %
N/A	End client unions	N/A	3 %	N/A

Key:	
Individual	→ (green)
Corporate	→ (blue)
Direct fund	→ (red)

Assumption for distributors: this is for multi-tied agents and the effect of commissions is omitted.

Figure 9.2: Market map – insurance company*.

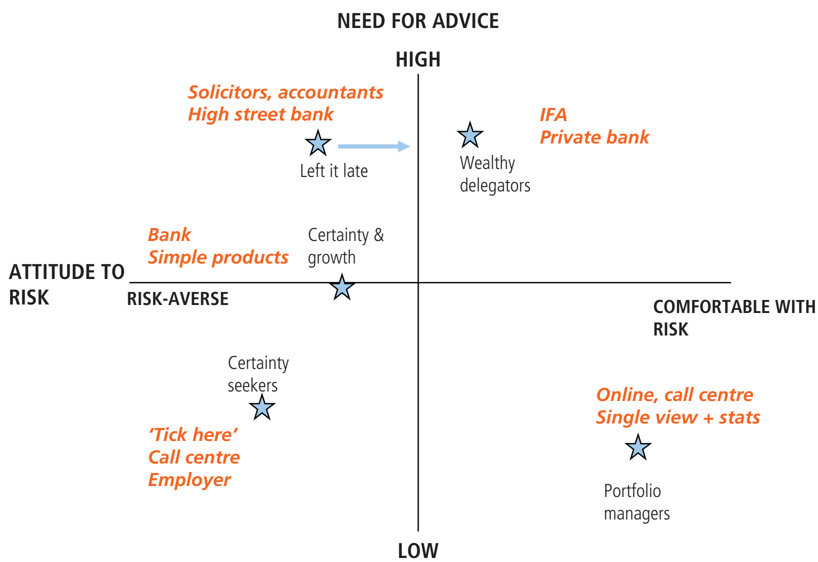


Figure 9.3: Segmentation of market for annuities.

* This insurance example, including the channel curve work described under step 4 later in this chapter, comes from the consulting of Professor Elizabeth Daniel and the authors with an anonymous insurance company.

CASE STUDY

The market for annuities is dominated by individuals at the moment of retirement, who have built up a pension pot and wish to convert some or all of it to an annuity, which pays a guaranteed amount each year until they die. Consumers vary in their attitudes towards such financial decisions, though, on two key dimensions shown in the figure: their need for advice, from highly independent decision takers to those who prefer to outsource their financial decisions; and their attitude to risk, from those who are very comfortable with risky investments such as shares to those who are risk-averse.

The largest segment is of 'certainty seekers', who wish to convert their pension pot to a guaranteed income with the least possible trouble. This segment typically takes out an annuity with their pension provider. A slightly less risk-averse segment is that seeking 'certainty and growth', representing people who are prepared to take some risk in order to achieve a greater return, for example, by investing part of their pension pot in a stock market-based product. 'Wealthy delegators' have a sufficiently large fund that they feel able to take more risk with its investment, and prefer to delegate the fine decisions to an adviser. 'Portfolio managers' may have similar funds but vary in their attitudes from wealthy delegators, preferring to manage their own fund portfolio. Finally, the 'left it late' segment have little or no pension provision.

Clearly the segments vary not just in what product propositions they want but also in what channel to market will best suit them. Certainty seekers can be efficiently served through a simple 'tick here' form, perhaps backed up by a call centre to answer any questions, so as to keep the process as simple and reassuring as possible. Wealthy delegators need to be reached primarily via advice-providing intermediaries such as independent financial advisers. The 'left it late' segment are likely to turn to their bank, and perhaps also their accountant or solicitor. 'Portfolio managers', by contrast, want hard information rather than personal reassurance, and so the Internet backed up by skilled telephone-based advisers may combine a low cost of service with immediacy and a sense of control for the customer.

In this case the most actionable insight for the insurer, though, concerned the growing 'certainty and growth' segment. The company decided that, while these customers were unlikely to use an independent financial adviser, they needed some face-to-face contact for help in selecting the right product and to provide reassurance. So distribution via a bank seemed the best option. This led the company to develop a special product variant which was suitable for this channel, and to them working with a high street bank to distribute it.

By simply asking ourselves what is the right channel strategy for each segment, then, we may improve on an undifferentiated channel strategy which treats all customers equally.

MARKETING INSIGHT

Many IT companies segment purely on the basis of company size or sector. But one major manufacturer applied a needs-based segmentation of its IT director customers to its channel strategy. The 'save my career' segment of IT directors with serious problems to sort out, they decided, needed plenty of face-to-face reassurance from an account manager – and were prepared to pay for it. A 'save my budgets' customer, by contrast, might be perfectly prepared to buy at a distance in order to reduce the cost of sale and thus the price. 'Radical thinkers' needed white papers and seminars with industry opinion leaders plus brainstorming with the firm's thought-leaders. 'Technical idealists' would be visited by company's technical staff while the besuited account managers stayed largely in the background. Overall, channel costs were reduced as the sales force could concentrate on where they were needed, but unlike many channel strategy projects which are driven purely by costs, the customer experience and hence revenue went not down, but up.

Step 2. Develop a channel chain for each segment to show how channels combine

This simple but effective tool helps to work out how channels will best combine by drawing what we call a channel chain diagram.[4] Channel chain analysis was introduced briefly in Chapter 7. In this diagram, the stages of the buying cycle are drawn down the left. (The details of these stages might vary for each case.) Then, against each stage are listed the channels used to accomplish it. The channel used for one stage will often affect which channel is likely to be used at the next stage, so the relevant boxes are joined with a line, hence creating one or more 'channel chains'.

CASE STUDY

A luxury hotel chain used this approach in its market research into how its guests found and booked their room. Three of the seven resulting channel chains are shown in Figure 9.4.*

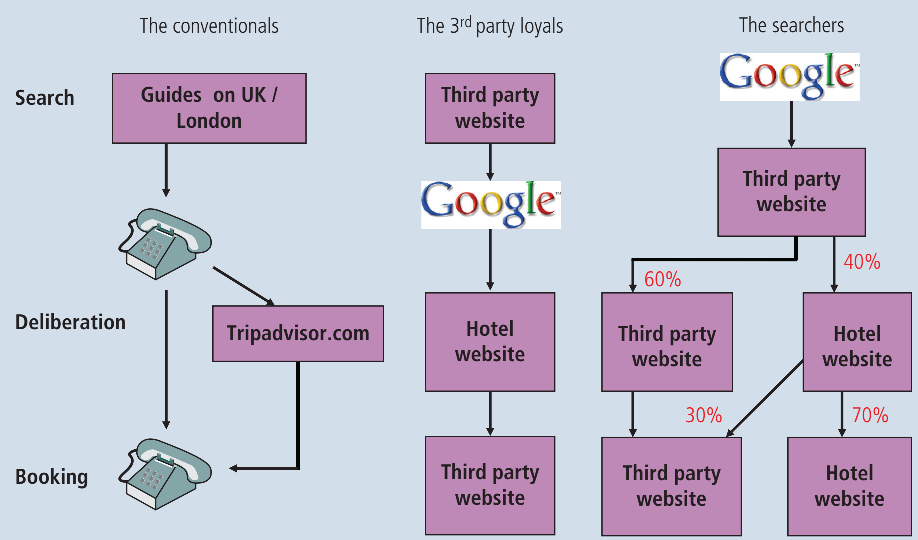


Figure 9.4: Current channel chains – hotel chain.

* This case study is based on the Cranfield Marketing MSc theses of Hrishikesh Mehta, Claudine Epper and Charlene Kosgey, working with the marketing director of the anonymous hotel chain.

(Continued)

Around 10 per cent of customers were 'conventionals', initiating their search for a hotel room with a printed guide, and going on to phone the hotel. Some of these 'conventionals' were beginning to complement their search with information from a website such as TripAdvisor, which contains consumer reports on their own hotel stays.

A larger proportion of customers were '3rd party loyals', who put their trust in one of the online intermediaries or third parties such as Expedia, due to successful previous experiences. The marketing director was intrigued to note that many of these were looking at the hotel website for further information, but then returning to the third party site to book. This was expensive behaviour for the hotel chain, which had to pay between 10 per cent and 25 per cent of the room rate to the intermediary. As it was based on a pre-existing relationship with the intermediary, though, it was difficult behaviour to change.

More immediately actionable, however, was the third channel chain for the 'searchers'. These customers would start by typing a search term such as 'luxury hotel London' into Google or another search engine. Expedia and its peers were masters at search engine optimization, and would buy paid search entries just to make sure, so the customer would probably end up on one of these intermediary sites. Again, a good proportion (about 40 per cent) of this segment would seek some further information from the hotel's own website. Having a lower loyalty to the intermediary, though, this time some of the customers would 'stick' on the hotel's site and book there, rather than returning to the intermediary. Nevertheless, in total 70 per cent of this segment would book through the intermediary. Even if this booking was with the hotel chain rather than a competitor, this represented an expensive sale.

Fortunately, the research included questions on why customers were making their channel choices and, crucially, why they made these channel switches from one channel to another. To the marketing director's surprise, the main reason for returning to a third party site from the hotel chain's site, even for these customers at the very top end of the market, was price. Consumers wrongly believed that the price would be better on the third party site. With this insight, the marketing director was able to convey some simple messages on the home page to explain that the hotel always offered its best prices directly. Simple search engine optimization also meant that a fair number of these 'searchers' now came straight to the hotel's website, too.

So, an understanding of channel chains led the marketing director to some simple changes at virtually zero cost. By the time she repeated her market research a year later, it was clear that these changes had diverted many customers to buying directly, at considerably lower cost.

A thorough understanding of your customers' current channel chains, then, is essential if these channel chains are to be redesigned to provide added value to the customer, lower costs, or both.

We have seen, however, that the right channel chain will vary both by customer group and by product, presenting the challenge of pulling together the work in each segment or product combination into an integrated strategy which has a reasonably small set of channel chains across the organization. We turn to this issue next.

Step 3. Develop a coverage map to show how channels vary by product and market

The coverage map tool provides a graphical means for thinking through this problem of how channel chains vary across products and across segments.

In its simplest version, shown in Figure 9.5 for a business-to-business telecoms firm, the tool summarizes how different channels are used by different customer groups and for different parts of the product range. The vertical axis plots customer groups, ranging from low value to high value ones. This is based on the observation that we are more likely to be able to afford the use of high cost channels for valuable clients.

The horizontal axis lists the company's products or services in order of the complexity of sale. So a simple product, with few options, which requires little explanation to the customer will appear to the left, while a complex product requiring configuration and consultancy and involving price negotiation will be to the right.

This reflects the observation that channels vary in their ability to handle complexity, and customers are well aware of this. An IT company's key accounts or an insurer's high net worth individuals may rightly demand face-to-face meetings with account managers or financial advisers to discuss complex, high risk decisions. But equally they are generally more than

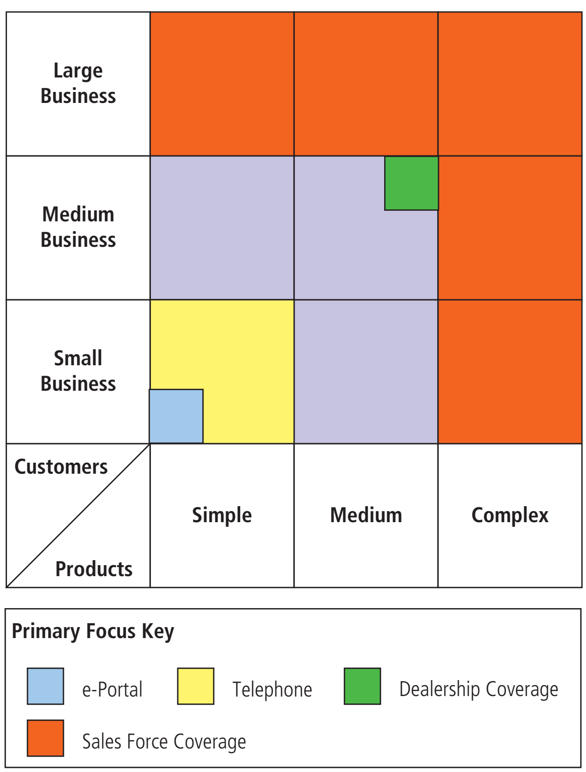


Figure 9.5: Coverage map – business-to-business telecoms provider.

happy to use low cost channels such as call centres and the Internet for routine, lower value transactions.

A good coverage map will have several features. The simplest is that it will have good coverage: there will be a channel for each area of the map – or at least each area which represents a target segment for the company – and channels will not be competing for the same space on the map. A good map will also use high cost, high bandwidth channels such as the field sales force or face-to-face meetings with a financial adviser only where they are needed, typically in the top right corner of the map, where the customer value justifies the cost and the sales complexity necessitates it. Low cost channels such as the Internet will typically dominate the bottom left corner, and in many cases, the whole of the left hand side of the map.

When companies first draw the map to illustrate their current channel model, it often demonstrates the lack of conscious management attention to the design of the channel strategy, by revealing one or more of the following faults:

- Overlaps where product/customer combinations are unintentionally served in multiple ways.
- Holes with insufficient coverage of target customers or parts of the product range.
- A resource balance directed to existing rather than potential business.
- Irrational use of expensive channels, with little differentiation behind the channels used to serve each area of the map.

The company of Figure 9.5, while not wholly dysfunctional, illustrates some of these faults. In particular, there appears to be an unnecessarily heavy use of the sales force. One would want to check out whether the high value customers were happy to conduct simpler transactions remotely instead, and whether the sales force really paid its way for the lowest value customers, or whether this business should be delegated to dealers. Moreover, although the web and dealership channels seem sensibly positioned on the diagram, they are in an immature state. The size of their boxes reflects the proportion of business coming through this channel, so, for example, only about 10 per cent of simple products purchased by small businesses are bought over the web. The telephone channel is also underused: its success with simple products for small businesses could be extended upwards on the diagram to medium-sized businesses, as well as rightwards to medium complexity products.

You may have noticed, however, that this example makes a major simplification. We have described the tool as if each area of the map – that is, each product/segment combination – has one and only one channel serving it. And indeed, that is the way in which the coverage map has generally been described and used in the past.[5] We have seen earlier in this chapter, though, that frequently several channels are needed in the same channel chain to serve a particular product/segment combination. So the tool is far more powerful if each shaded or coloured area on the map is thought of as a channel chain rather than a single channel, even if, for shorthand, the area is labelled by the 'leading' channel in the channel chain, typically that where the order is actually taken. This point will become clearer in the next example.

By developing a current coverage map and brainstorming a future one, major opportunities for improving cost, reach and customer experience often emerge. This is illustrated by a highly successful project within BT, which has been widely credited with helping to turn around the fortunes of the UK's former monopoly telecoms provider.

CASE STUDY

BT GLOBAL SERVICES GOES MULTICHANNEL*

In 2000, BT's Global Services, a £6.5 billion turnover division of BT serving the UK's top companies and public sector organizations, as well as major organizations internationally, faced some major challenges in its route to market. Nearly all sales were booked by the field sales force – from a £5,000 leased line to a £100 million outsourcing contract. Despite a sales force numbering 2,000 people, BT was unable to serve the market adequately as it compensated for the decline in traditional fixed line telecommunications with growth in ICT products and outsourcing services. Some of these ICT products attracted much lower margins than BT's traditional business, suggesting a lower cost route to market. Conversely, outsourcing contracts required intensive consultancy-led selling. Undifferentiated handling by a single field sales force was no longer sustainable.

To put it another way, the coverage map was entirely populated by one channel – the field sales force – despite the product range displaying a much increased variation in sales complexity. BT began to hypothesize a new coverage map, a simplified version of which is shown in Figure 9.6.

The field sales force would be needed more than ever for the highly complex deals, such as outsourcing with high value customers. But, BT suspected, a large area in the middle of the chart could be handled effectively by the new channel of DBAMs – fully professional account managers, but working entirely from the office. These staff would have a higher proportion of the day in contact with customers which, combined with savings on supporting staff on the road, would lower costs considerably. It was hoped that customers would also benefit from being able to contact a member of the account team at their convenience. At the bottom left corner of the chart, simpler transactions with lower value customers would be carried out either online or via partners.

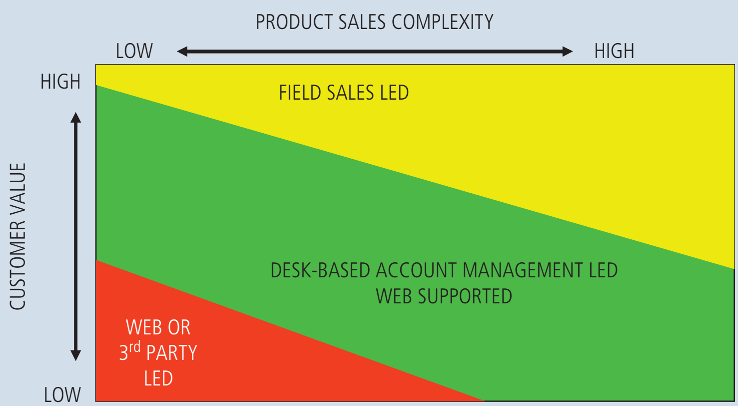


Figure 9.6: Coverage map – BT Global Services.

* This case study was researched by Dr Stan Maklan and the authors. We are grateful to Ruth Rowan, Olivia Garfield and Lesley Abeny, then all at BT, for their collaboration.

(Continued)

A successful pilot with 12 DBAMs found that sales and marketing costs did indeed go down dramatically, from 25 per cent of revenue to 17 per cent, adding 8 per cent of revenue straight to the bottom line. It also actually found increased customer satisfaction, as customers preferred the highly available DBAMs for their simpler needs. As a result, BT had, by 2005, rolled out 400 DBAMs and reduced the field sales force accordingly. They had also introduced desk-based technical specialists to support them. BT estimated that as well as reducing costs – each field sales person costing 2.5 times as much as a DBAM on a fully allocated cost basis – this was generating over £100 million of additional annual revenue, as the field sales force was able to concentrate on high value opportunities.

The word 'led' against each area of the coverage map is significant, as the named channel is really the name of a channel chain in which the named channel is the likeliest to take the order itself. For example, the web is playing a significant role throughout the sales process in all areas of the map. Dedicated pages for large customers and web conferences help the customer to research BT's offerings, while business rules built into the web solution ensure that customer enquiries and orders are routed to the appropriate person for fulfilling. After-sales services allow customers to access basic service and billing information quickly and report faults. This takes pressure off the field and desk-based sales resources: for example, the well-supported web-based customer conferences save field sales over 500 person-days a year.

This closely integrated channel mix required careful attention to reward systems. To break channel silo habits and encourage cooperation early in the change process, BT experimented with what they called 'double bubble': paying both desk and field resources for sales on which they cooperated. Within six months this was deemed too expensive, and a new system was developed that rewarded both field sales people and DBAMs for all sales over their annual targets without paying twice for each sale. The remit of each was clear – DBAMs were responsible for bringing in new business on their accounts, account managers were responsible for the entire account balance. It was in the account manager's interest to help the DBAMs sell aggressively to his or her account; and it was in the interest of the DBAM to help the account manager develop opportunities within the account that the desk could exploit.

BT has developed comprehensive business rules that allocate sales campaigns and leads appropriately, based on the logic of the coverage map. Each of the approximately 65 service and product areas sold by the division is scored on seven aspects of product complexity: product maturity, configurability and integration, commoditization, pricing complexity, the length of time to complete the sale, the need for buyer education, and who in the client organization buys. The scoring is agreed by the most senior people in the division and updated periodically. The score of each product determines which channel will normally sell the product. This preferred channel is embedded in the CRM system so leads are automatically allocated to the right channel, although this automatic allocation can then be overruled by the account teams if their account knowledge suggests it is wrong. Nevertheless, the DBAMs take forward more than 75 per cent of enquiries that reach their desk, and win approximately 64 per cent of these, an achievement that is well above BT's expectations. The DBAMs also perform a critical 'triage' function on leads generated from the web or from marketing campaigns, deciding which opportunities need to be referred to the field sales team for progressing, which need specialist input and which ones they can action alone.

Coverage maps, then, can help to integrate the channel strategy into a coherent design. In particular, they are useful for allocating scarce, expensive channel resource where it is most needed, and making the best use of lower cost channels. It is important to use them in conjunction with channel chain diagrams: each area or colour on the coverage map has a different channel chain. For more examples of coverage maps, channel chains and how they fit together, see Wilson, Street and Bruce, *The Multichannel Challenge*.[6]

Step 4. Develop channel curves to check the advantage to the customer

By this stage in the process, we have numerous ideas for improving our multichannel proposition. How can we validate these ideas before including them in the marketing plan? A useful tool is the channel curve. This tool addresses the question: 'What is the advantage to the customer of our proposed change?' Although we have borne in mind segment characteristics when constructing channel chains, we have only assessed the customer's acceptance of our proposed channel chains intuitively. As this is crucial for estimating the impact of changes on revenue, it is best to do more detailed modelling of the customer perspective before proceeding to piloting. This is the purpose of the channel curve tool.

For example, let us suppose that, on the basis of our coverage map and channel chain work, we would like more customers to use a call centre or web channel in order to lower transaction costs. Clearly we have to look at this issue from the customers' point of view: what is driving their current behaviour, and what would entice them to change? The channel curve analyses this, comparing how different channels (or different channel chains, as we will come on to shortly) rate at meeting the customers' buying criteria. It is illustrated in Figure 9.7 for the insurance company we considered earlier in the chapter, selling pensions to consumers.

First, the main buying factors are listed along the bottom of the chart, with weights indicating their relative importance to the customer's buying decision (out of 100). These represent the key factors taken into account by the customer in deciding where to place their business. The ability of each channel to deliver against each factor is then rated on a 1–10 basis: the higher the score, the better this channel meets this buying factor.

This financial services company was currently selling pensions through IFAs, but was contemplating whether it should introduce any further routes to market – direct on the web; selling on the web via a trusted intermediary such as the *Financial Times* or Which?; or selling via

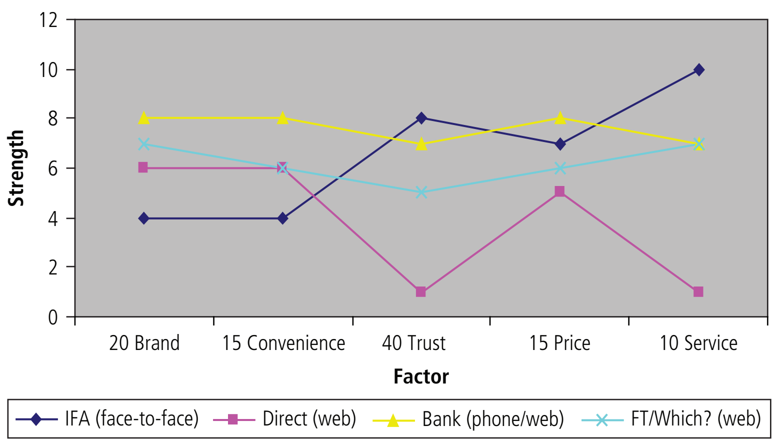


Figure 9.7: Channel curve – pensions.

integrated call centre and Internet banks such as First Direct. This last option represents a call centre/Internet channel combination rather than a single 'pureplay' channel. In this situation, such channel combinations can be compared on the channel curve along with any simpler 'pureplay' channel options.

In this particular case, it can be seen that the option of direct sales on the web falls down on the target segment's crucial buying criterion of trust. This reflected the conclusion from market research that, while some customers were willing to do research of possible pension providers online, the great majority would then seek the approval of someone they trusted before they felt confident enough to buy such a high involvement product. The company concluded that a website would be unlikely to deliver this trust – a conclusion which is so far consistent with the available evidence. As the chart suggests, though, they thought it possible that customers would trust a bank with high service standards such as First Direct sufficiently to have such a crucial conversation remotely, suggesting that some trials of this route to market might be worthwhile.

In practice, different segments are best matched to different channels, which would show up clearly if the channel curve was drawn for each segment, since each segment's buying criteria are, by definition, different from those of other segments. In practice, then, this particular manager would need to draw a similar chart for each major target segment.

All this can be used to define a future proposition on the channel curve. This may simply be a question of adding a channel to the mix, or extending its capabilities to handle a wider part of the customer interaction. More often, it will involve improvements to an existing channel offer. In this case, two lines will be needed for the channel in question, one for the current situation and one for the envisaged future situation.

Step 5. Understand channel costs

The channel curve, then, helps us to assess a proposed future channel strategy in terms of what is in it for the customer – and, hence, what is the likely impact on sales. The other main dimension we need to assess in constructing the business case is the impact on costs. This essential step is relatively easy to describe, though often a lot of work in practice. The starting point is to analyse the costs of individual channels.

CASE STUDY

LOWERING CHANNEL COSTS FOR AN AIRLINE

Figure 9.8 shows the results of an exercise to analyse costs per channel for a major airline for their four major channels: 'trade', the travel agents; direct sales online; and two categories of call centre. Conventional wisdom in the airline was that e-commerce was by far the cheapest channel, and web sales were priced accordingly with large discounts. The channel director wanted to check out these assumptions in order to work out where to put his future investment.

What he found, after a lot of careful work with the accountants combining information from different sources, came as a surprise. The 'trade' channel (sales through travel agents) had significant commission costs, so the variable costs per sale were far from negligible at 75 currency units per sale. But web sales had an even higher variable cost, for two reasons: credit card charges and the discounts that were being offered online in the mistaken belief that this would save the company money. Furthermore, the fixed costs were much higher

	Trade Centre	e-Commerce	Call Centre	Contact
Fixed Costs				
Staff & Office	23.8	48.5	248.4	50.7
Investment	0.2	39.4	22.2	0.0
Maintenance	0.2	18.7	7.4	0.0
Communications	0.4	0.0	0.0	0.0
Total	**24.6**	**106.6**	**277.9**	**50.7**
Variable				
Distribution	49.0	11.4	8.9	10.9
Incentives	20.2	55.8	0.0	0.0
Credit Card	6.2	34.6	25.2	22.6
Total	**75.4**	**101.8**	**34.1**	**33.5**
Total	**100.0**	**208.4**	**312.0**	**84.2**

Figure 9.8: Analysing channel costs – an airline.

for the online channel, due to high costs of IT development and equipment. Higher still were the costs of running call centres.

An analysis purely based on current channel cost might have led to the entirely erroneous conclusion that the direct sales channels should be closed. Indeed, the fact is that some segments wish to deal with travel agents, and this was still the most efficient way to serve customers with more complex requirements. But other segments prefer to buy online, so the challenge was more one of getting the coverage map right and getting costs and prices in line.

So the channel director developed a new coverage map which directed the travel agent channel at the customers where it was needed. In the light of the cost data, he adjusted the online pricing so that only the price-sensitive segment would be discounted, and then only when the plane would otherwise not be full. And he reprioritized investment in website capabilities to reduce the load on the call centres when website users got stuck – an important multichannel effect which was driving up the call centres' overall costs. The whole project resulted in projected savings of several hundred million dollars over five years, a target which the airline is on target to meet at the time of writing.

This example shows how important it is to get a handle on current channel costs. But in the use of call centres by customers who then place the order through another channel, we have also seen how multichannel purchasing can skew this data. The same applies, of course, to other buying combinations such as talking to a travel agent and then buying online. What we really need, therefore, is cost information not per channel but per channel chain.

Step 6. Pilot new channel model

The final step before full implementation of a new channel strategy is to pilot any changes to the route to market. Even with the benefit of channel curve analysis, the customer reaction to new channel models can be difficult to predict with certainty; and there are many examples that show that simply asking the customers how they will react to a model they have never yet seen is far from reliable! A good pilot is, therefore, critical.

The BT Global Services case we described earlier in this section is a good example. Before rolling out DBAMs, the project director conducted a pilot, treating one group of accounts with the new combination of DBAMs and field salespeople, and leaving a 'control' group of similar accounts with the previous, field-based sales model. The metrics which she tracked in this pilot were instructive: revenue and profit in the two groups, of course, but also customer satisfaction and employee satisfaction.

• • •

With the help of this six-step process, which has been refined over a number of years by the blue-chip members of Cranfield's Customer Management Forum, a channel strategy can be defined which reduces costs, improves coverage and enhances customer experience at the same time. In particular, it is the art of combining channels in the same journey, using high cost, personal ones where they are needed and low cost ones where they are appropriate, which opens up the creative space of channel strategy allowing cost reduction and experience improvement to be seen as complementary and not in competition.

This multichannel strategy process applies equally in business-to-business and business-to-consumer contexts, and also to both goods and services. There are, however, some additional considerations in the case of goods that require physical distribution, which we will consider next.

PHYSICAL DISTRIBUTION

The Importance of Distribution

For manufacturers, the physical distribution function of a firm provides the place and time dimensions which constitute the third element of the marketing mix. This is depicted in Figure 9.9, which also shows its relationship to the other utility-producing elements. The figures on the diagram are illustrative only, although they are realistic for some industries.

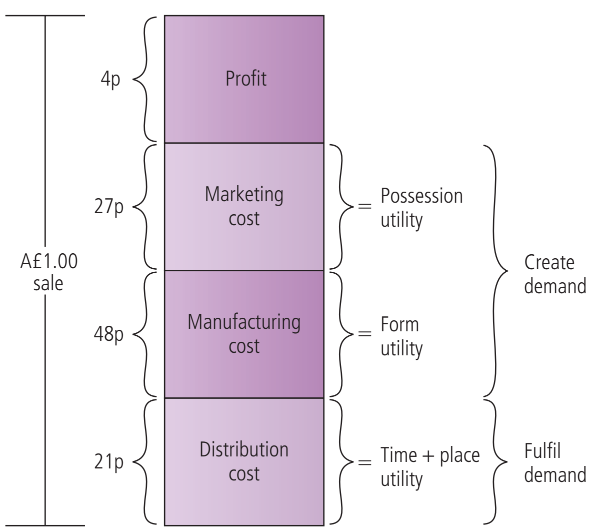


Figure 9.9: The utility producing elements in manufacturing.

To achieve this value-adding function, firms generally have a distributive activity within the corporate organizational structure known variously as physical distribution management (PDM), marketing logistics or, simply, logistics. Today, it is frequently called 'supply chain management', which also encompasses the supply side of physical flows. A generalized model of the entire manufacturing entity is given in Figure 9.10; this also depicts the position of (finished) product ▶ distribution vis-à-vis marketing, production, the procurement system and the financial/accounting systems.

If a product is not available when and where the customer wants it, it will surely fail in the market.

Distribution is the movement of all materials, both prior to production and after production. The term 'logistics' is also used in the same way.

The movement of all materials, both prior to production (raw materials, subassemblies, etc.) and after production (finished product) constitutes the total logistics flow of the firm. In this chapter, however, we shall confine our attention to the latter, that is, finished product distribution.

The Distribution Mix

In a typical manufacturing company with a formal distribution structure, the responsibility for distribution-related matters is spread across the other functional departments. For example, production may control warehousing and transportation; marketing may control the channels through which the product moves, the levels of service provided to the customer and communications; and the finance department may control inventory obsolescence, data processing and inventory costs.

Such a compartmentalized arrangement leads to each department working to its own objectives, attempting to optimize its own particular activity, oblivious of others or of the good of the whole company.

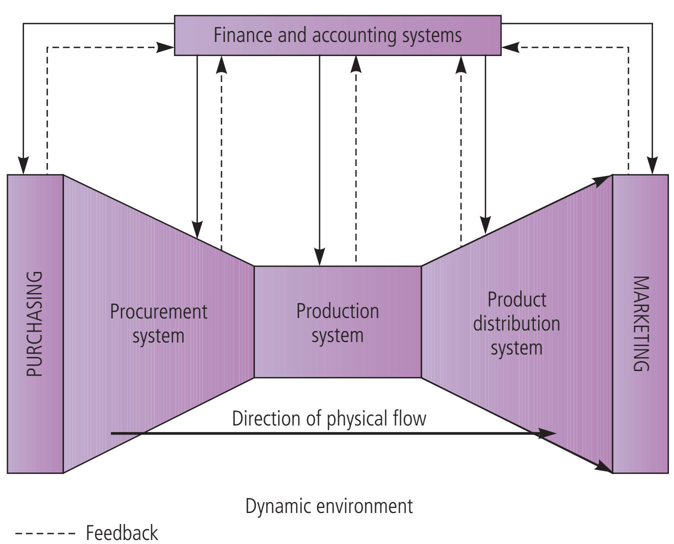


Figure 9.10: Manufacturing flows.

Introducing a more formalized distribution arrangement into the corporate organizational structure, although not completely eliminating interdepartmental friction, does at least ensure that all distribution-related activities are organized under a more centralized control, thereby gaining focus.

This, then, is the basis of the total distribution concept, because it now becomes possible to seek out potential 'trade-offs', that is, consciously to incur costs in one area in order to achieve an even larger benefit in another. For example, should a series of field warehouses be maintained, or would one suffice, supplemented by an improved trucking operation? Of course, these types of potential 'trade-off' situations place a heavy burden on the cost-reporting systems of a company.

The professional logistics manager, therefore, has several variables to contend with in the search for trade-offs; taken together these constitute the *distribution mix*. Each of these will now be examined briefly.

Facilities

Decisions in this area are concerned with the problem of how many warehouses and plants should be established and where they should be located. Obviously, for the majority of companies it is necessary to take the location of existing plants and warehouses as given in the short term, but the question does arise in the longer term or, indeed, when new plants or warehouses are being considered.

> The principal marketing task here is to forecast the nature, size and geographical spread of demand.

Increasing the number of field locations will result in an increase in trucking costs and a reduction in retail distribution costs. So, another marketing task is to determine the customer service levels that are likely to be required in order to be able to make a decision about this particular trade-off.

Inventory

A major element in any company's total distribution costs is the cost of holding stock, which is often as high as 30 per cent of its value per annum. This is because of items such as interest charges, deterioration, shrinkage, insurance, administration, and so on. Thus, decisions about how much inventory to hold, where to hold it, in what quantities to order, and so on, are vital issues. Inventory levels are also instrumental in determining the level of service that the company offers the customer.

Transport

The important aspects of the transport decision concern such issues as what mode of transport should be used, whether to own vehicles or lease them, how to schedule deliveries, how often to deliver, and so on. Perhaps of the five distribution variables, it is transport that receives the greatest attention within the firm. It is certainly one of the more obvious facets of the distribution task.

Communications

It must always be remembered that distribution not only involves the flow of materials through the distribution channel, but also the flow of information. Here, we are talking about the order processing system, the invoicing system, the demand forecasting system, and so on. Without effective communications support, the distribution system will never be capable of providing satisfactory customer service at an acceptable cost. It is vital that it should be recognized that inefficiency here can lead to a build-up of costs in other areas of the business, such as, for example, in emergency deliveries, as well as a permanent loss of sales through customers turning to alternative sources of supply.

Unitization

The way in which goods are packaged and then subsequently accumulated into larger unit sizes (e.g. a pallet load) can have a major bearing upon distribution economics. For example, the ability to stack goods on a pallet which then becomes the unit load for movement and storage can lead to considerable cost saving in terms of handling and warehousing. Similarly, the use of containers as the basic unit of movement has revolutionized international transport and, to a certain extent, domestic transport as well. Mobile racking systems and front-end pricing by means of scanners are other unitization innovations that have had a dramatic effect upon the way goods are marketed.

Together, these five areas constitute the total cost of distribution within a company.

Aligning the Interests of the Firm and its Distributors

> The fundamental role of a company's distribution function is to ensure that the 'right product is available at the right time'.

This implies some organization of resources into channels through which the product moves to customers.

> It is necessary to consider both the route of exchange (and its administrative and financial control) and the physical movement route of the product – they may well be different.

Many companies use multiple channels through which to reach their customers, often involving one or even several 'indirect channels' or 'intermediaries'. The role of a distributor is to provide the means of achieving the widest possible market coverage at a lower unit cost. Many such intermediaries hold stock and thereby share some of the financial risk with the principal (or supplier). Figure 9.11 shows that using an intermediary carries benefits for the manufacturer, but it also involves significant 'costs', the most important of which is the loss of control which accompanies such a channel strategy.

Often, too, considerable conflict exists between the respective objectives of suppliers and their distributors; this gives rise to conflict and suspicion in the relationship. Nevertheless, suppliers must evaluate the costs and benefits of each marketing channel potentially open to them and decide on a combination which best suits their type of business and the markets they are engaged in. The alternatives depicted in Figure 9.12 quite obviously have different cost/revenue profiles.

Any cost/benefit appraisal needs to be undertaken in the widest context possible. It needs to consider questions of market strategy, the appropriateness of the channel to the product, and customer requirements, as well as the question of the comparative costs of selling and distribution.

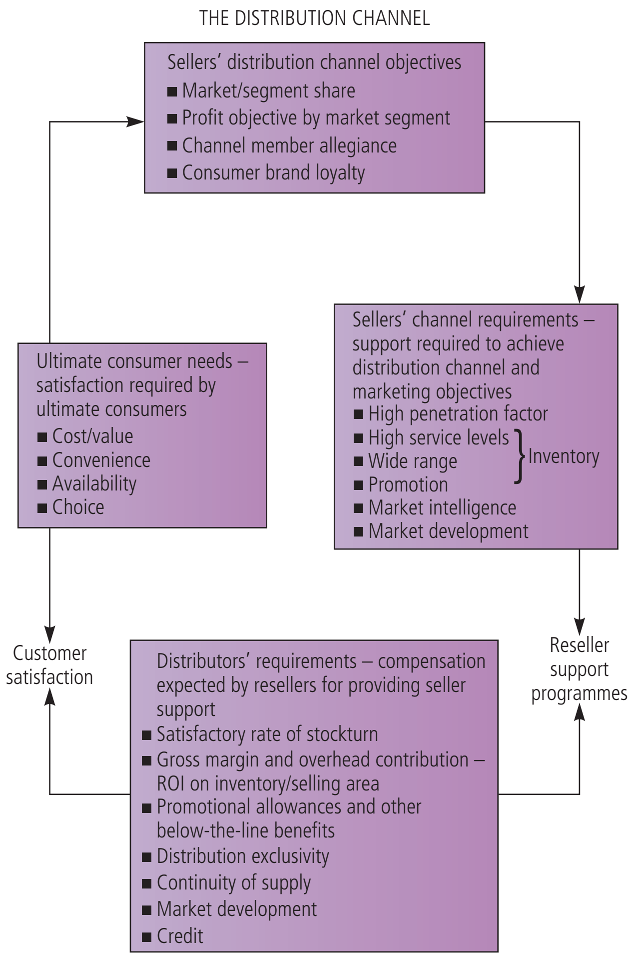


Figure 9.11: Aligning the interests of the firm and its distributors.

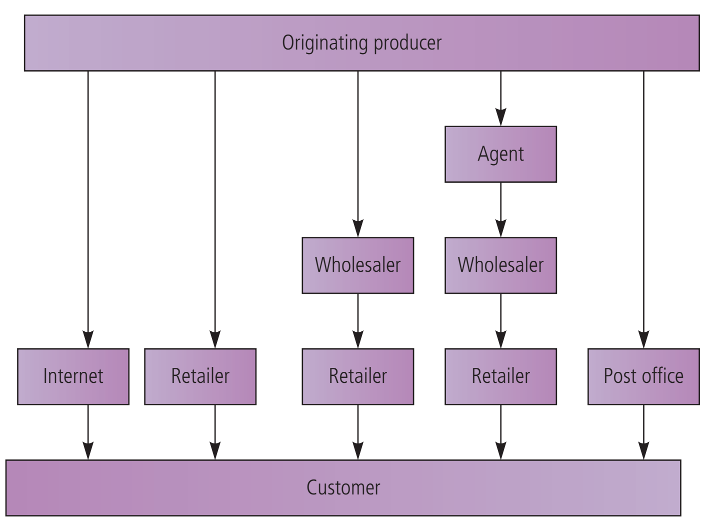


Figure 9.12: Examples of different routes to market.

Marketing channel decisions for goods are, therefore, key decisions which involve the choice of an intermediary (or intermediaries) and detailed consideration of the physical distribution implications of all the alternatives, in addition to the other considerations for both goods and service sectors, which we discussed earlier in this chapter. The evaluation of distributors is, therefore, of significant importance.

Evaluation Criteria for Channel Intermediaries

Regardless of the type of intermediary to be used, there are a number of basic evaluation criteria, for example:

- Do they now, or will they, sell to our target market segment?
- Is their sales force large enough and trained well enough to achieve our regional sales forecasts?
- Is their regional location adequate in respect of the retail (and other) outlets serviced?
- Are their promotional policies and budgets adequate?
- Do they satisfy customer after-sales requirements?
- Are their product policies consistent with our own?
- Do they carry competitive lines?
- What are their inventory policies regarding width, depth and cover?
- Are they creditworthy?
- Is distributor management receptive, aggressive and flexible?

All the above factors, and others, have to be considered when making specific decisions on choice of intermediaries, which in turn is part of the overall channel selection issue.

Developing the Distribution Plan

Figure 9.13 shows the interrelationship between the process described elsewhere in this book and distribution. Here, we see that product, pricing and promotion decisions are separated from distribution.

The first issue is to allocate responsibility for the distribution plan. It is clear that this plan is of necessity cross-functional, so this decision is not trivial. Whoever is responsible for the plan, the aim should be to achieve integrated distribution management. This is an approach to the distribution mission of the firm whereby the multiple functions involved in moving goods from source to user are integrated and viewed as an interrelated system for purposes of planning, implementation and control.

Integrated distribution management is an approach to the distribution mission of the firm whereby the multiple functions involved in moving goods from source to user are integrated and viewed as an interrelated system for purposes of planning, implementation and control.

Organizationally, it makes a lot of sense to make marketing responsible for distribution, since it is probably in the best position to make the difficult trade-off between very high levels of customer service and the high inventory-carrying costs associated with such levels. On the other hand, labour relations, wage bargaining, the technical aspects, and so on, of distribution also demand specialist attention, and there is a grave danger that such issues may begin to divert too much of the chief marketing officer's attention away from other important marketing areas. The logistics director is one possible answer to this problem. Such a role is to view the whole distribution system in an integrated way.

Whatever the organizational solution, however, all of the above issues are relevant and it is necessary to know where to start.

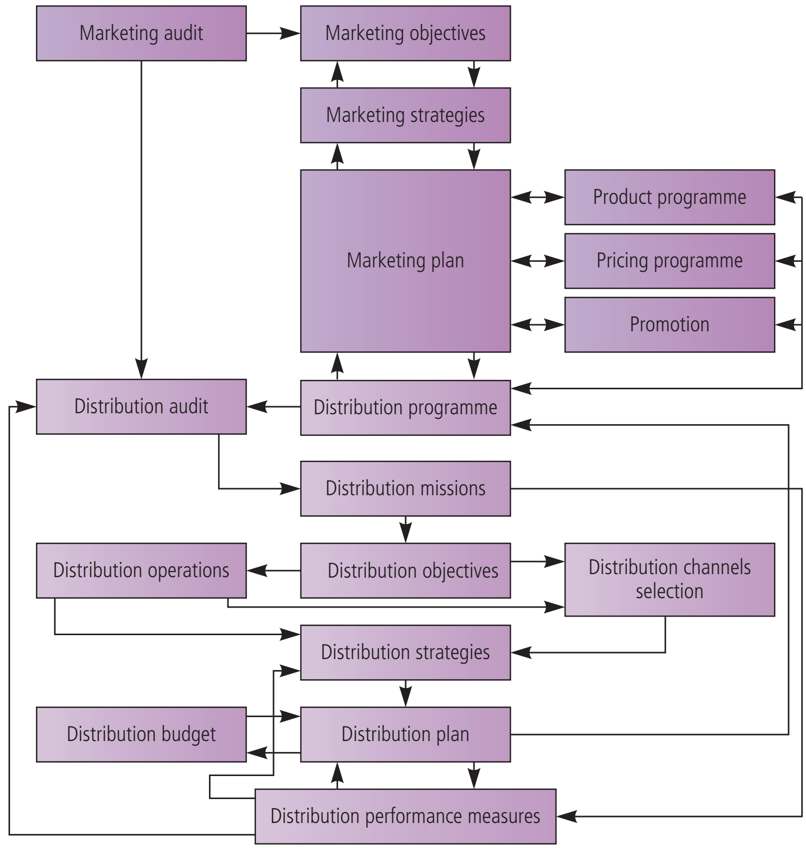


Figure 9.13: The marketing plan and distribution.

Where to start?

The distribution audit was referred to in Chapter 2. Like the more general marketing audit referred to there, this is in two major parts – internal and external. Figures 9.14 and 9.15 illustrate the major components of the distribution audit.

Distribution objectives can be many and varied, but the following are considered basic for marketing purposes:

1. Outlet penetration by type of distribution.
2. Inventory range and levels to be held.
3. Distributor sales and sales promotion activities.
4. Other specific customer development programmes, e.g. incentives for distributors.

When taking an integrated distribution management approach, it is as well to remember that there are several other decisions/trade-offs which need to be specified in the plan. These are depicted in Figure 9.16.

Of course, all of these decisions need not necessarily be located in one plan or be made by one person or department, but clearly they need to be made and written down somewhere in the company's plans.

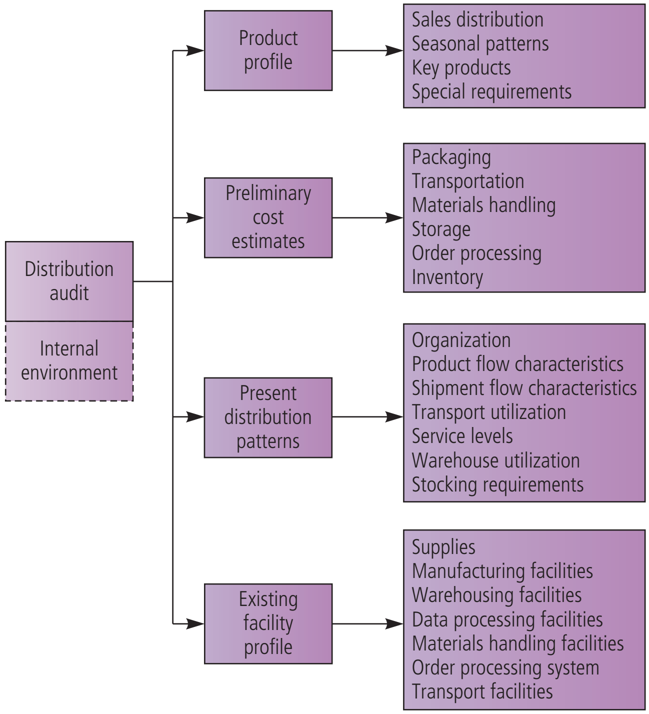


Figure 9.14: Elements of the distribution audit – internal environment.

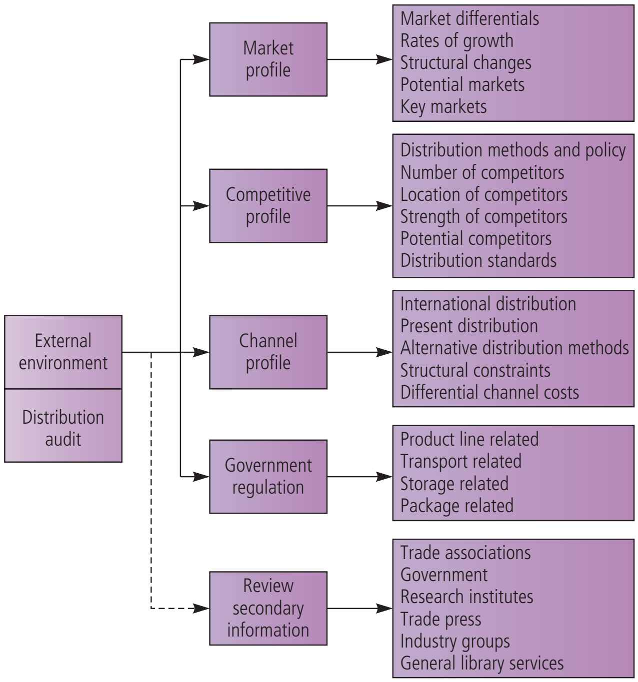


Figure 9.15: Elements of the distribution audit – external environment.

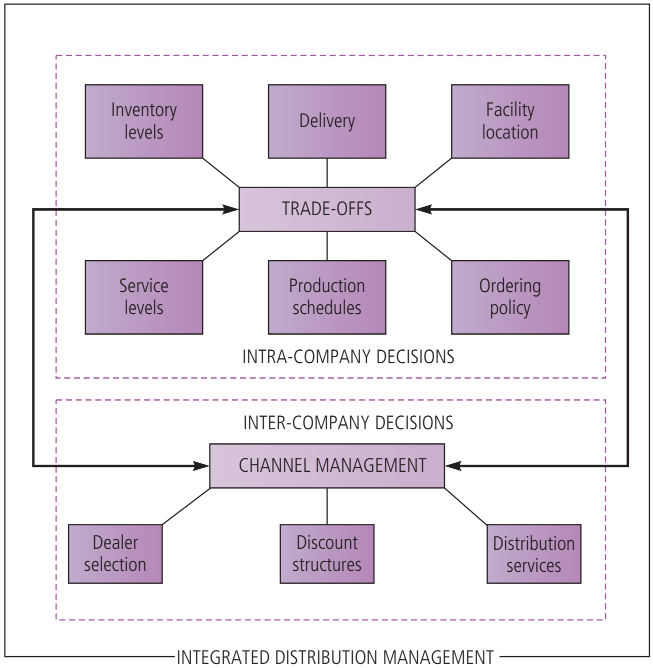


Figure 9.16: Some key distribution decisions.

Finally, the following illustrates a simple iterative approach to distribution planning that should help tighten up what is often a neglected area of marketing management.

Distribution planning approach

1. Determine marketing objectives.
2. Evaluate changing conditions in distribution at all levels.
3. Determine distribution task within overall marketing strategy.
4. Determine distribution policy in terms of type, number and level of outlets to be used.
5. Set performance standards for the distribution organization.
6. Obtain performance information.
7. Compare actual with anticipated performance.
8. Adjustment where necessary.

CUSTOMER SERVICE

Why Service Matters: The Service Profit Chain

As services account for an increasing proportion of gross domestic product in developed economies, it has been argued that goods are becoming commoditized and that differentiation is increasingly obtained through service, although the empirical evidence on this point is mixed. Nonetheless, for many firms, service forms an important part of their differentiation strategy. For these firms, the service–profit chain is important. See Figure 9.17.

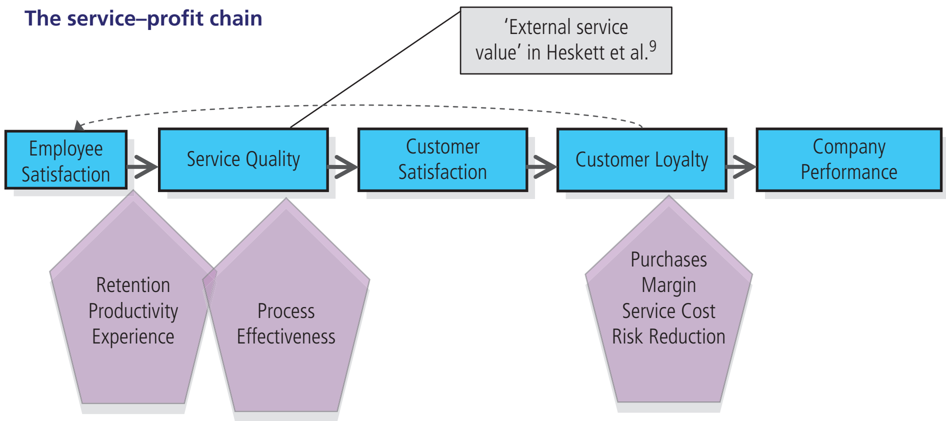


Figure 9.17: The service–profit chain.

The logic of the service profit chain is simple, and evidence for most parts of it has multiplied over the last two decades:

1. Satisfied employees provide better service quality. They stay with the firm longer so that they are more productive and well trained in the firm's processes. They are more committed to the firm and this impacts on how they present themselves.
2. The service quality is noted by customers and they are more satisfied.
3. Satisfied customers are more loyal: they buy more from the firm, they recommend it more and they stay longer.
4. Loyal customers improve profitability because they spend more, they don't leave just on the basis of price, they are familiar with your products and processes so they have lower cost to serve and require lower marketing and promotion budgets versus recruiting new customers. Loyal customers, therefore, create shareholder value by allowing the firm to improve revenue, reduce cost and reduce risk.
5. There is a positive feedback loop to employees in all of this. Satisfied customers tend to treat service employees better and there is a positive reinforcement between employee and customer satisfaction. This improves employees' job satisfaction and commitment to the firm and its customers.

So what is service quality? It varies by industry, but generally there are five key aspects or 'dimensions' of what customers look for in an excellent service: empathy; tangibility; reliability; responsiveness; and assurance. So if you track these through surveys and make sure you optimize them, you are improving some proven key drivers of customer behaviour. See Figure 9.18.

From Service to Experience

If service is becoming increasingly important relative to goods, a further argument states that service, too, is increasingly commoditized, and that the contemporary customer demands more than just competent service, seeking experiences which are 'engaging, robust, compelling and memorable', as Pine and Gilmore put it.[7] This argument, also, is largely conjectural, but increasing attention is being paid by both practitioners and academics as to whether and how the

Service quality: the five dimensions of SERVQUAL

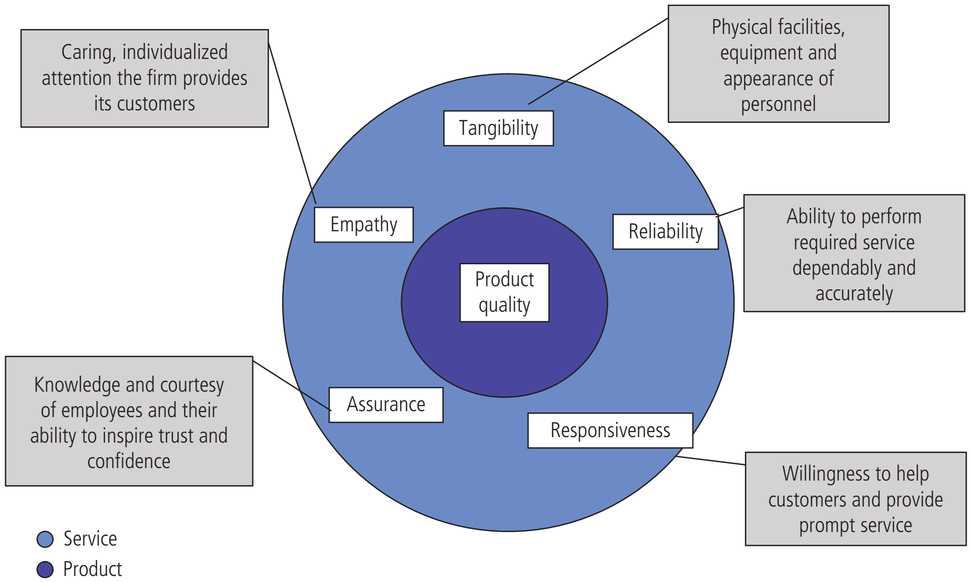


Figure 9.18: Service quality: the five dimensions of SERVQUAL.

Source: Parasuraman, Zeithaml and Berry (1988) 'SERVQUAL: A multi-item scale for measuring consumer perceptions of service quality', *Journal of Retailing*.

customer experience might go beyond service. Research at Cranfield and elsewhere is showing that experience quality goes beyond service quality in at least five ways:[8]

1. *Usage processes*. The customer's process of using the firm's goods or services is part of customer experience, which influences how the customer thinks about the firm. For example, an MBA student's experience of applying knowledge gained during the course will influence their evaluation of Cranfield and the extent to which they recommend Cranfield to others. We will return to how value arises not at the factory gate but in use in Chapter 11 on pricing.
2. *Peer-to-peer interactions*. In many contexts – an MBA classroom, a holiday, a football match – the interactions we have with other customers are as important in our evaluation of the holistic experience as are the interactions we have with the provider's employees.
3. *Relationship*. Many service quality surveys erroneously focus only on individual customer encounters or transactions. In business-to-business contexts but also many business-to-consumer contexts, we also value the quality of our relationship with firms between and across multiple transactions.
4. *Brand image/communication*. Possessing an iPad may not just be of instrumental value in achieving the owner's tasks; it may also be perceived as valuable due to the statement that it makes about the owner. As with interactions with other customers, the social impact of products or services on non-customers can form part of our customer experience.
5. *Emotions*. Much market research on service quality assumes that the customer is entirely rational. But the emotions we have as we go on a customer journey feed into how we evaluate the firm overall.

It is, therefore, essential to ensure, as an important input into the marketing plan, that the customers' needs in each of these areas are well understood.

Customer Service for Goods Firms

The output of a firm's distribution activities is a system organized to provide a continuing link between the first contact with the customer, through to the time the order is received and the goods/services are delivered and used, with the objective of satisfying customer needs continuously. It encompasses every aspect of the relationship.

However, the provision of ▶ customer service in all its various forms is likely to involve the firm in large financial commitments. In fact, it can be demonstrated that once the level of service (defined here as the percentage of occasions the product is available to customers, when and where they want it) increases beyond the 70–80 per cent mark, the associated costs increase exponentially. Figure 9.19 demonstrates the typical relationship between the level of availability and the cost of providing it. From this diagram it will be observed that the cost of increasing the service level by a small amount, say from 95 per cent to 97.5 per cent, results in a sharp increase in inventory costs. The implications of this cost relationship bear closer examination.

Significantly, many companies appear to be unaware of the level of service they are offering, that is, there is no customer service policy as such. Even where such a policy does exist, the levels are quite often arbitrarily set and are not the result of a careful market analysis.

The question, then, arises: what level of availability should be offered? This question is relatively simple to answer in theory, but very difficult to quantify and achieve in practice, since different product groups in different market segments could well demand different levels of customer service. Readers who did not study the Globaltech case history on customer service by segment are referred to the end of Chapter 3.

In theory, at least, it is possible to say that service levels can continue to be improved as long as the marketing advantage that results continues to outrun the additional costs incurred. Conceptually, it is possible to draw an S-shaped curve (see Figure 9.20) which suggests that, at very high levels of customer service, customers are unable to distinguish between small changes in the service offered.

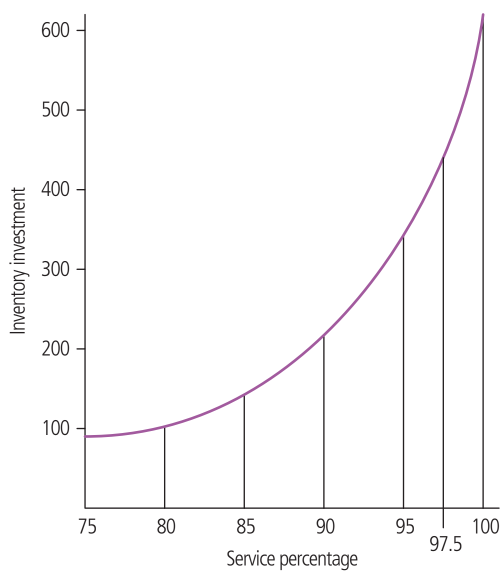


Figure 9.19: The increasing costs of goods availability.

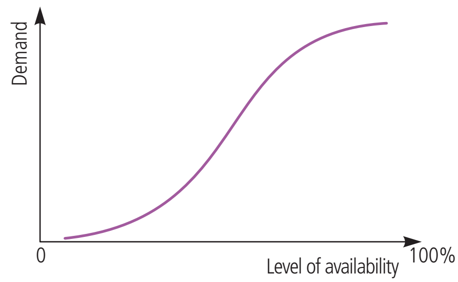


Figure 9.20: The relationship between availability and demand.

When a company is operating in this region, it is quite possibly incurring more costs than are necessary for the level of sales being achieved.

Somewhere between the costs and benefits involved in customer service, a balance has to be found.

For example, marketing and sales managers who insist on offering maximum service to all customers, no matter what the profitability and location of those customers, are quite probably doing their company a disservice.

By carefully reviewing customer service policy, perhaps even introducing differential service levels for different products or for different customers (at least on a trial-and-error basis), marketing can enhance its contribution to corporate profitability.

Somewhere between the costs and benefits involved in customer service, a balance has to be found. It will be at that point where the additional revenue returns for each increment of service are equal to the extra cost involved in providing that increment. To attempt to ascertain this point of balance, certain information is required, for example:

1. How profitable is the product? What contribution to fixed costs and profits does this product make and what is its sales turnover?
2. What is the nature of the product? Is it a critical item as far as the customer is concerned, where stock-outs at the point of supply would result in a loss of sales? Does the product have characteristics that result in high stockholding costs?
3. What is the nature of the market? Does the company operate in a sellers' or a buyers' market? How frequently is the product purchased? Are there ready substitutes? What are the stockholding practices of the purchasers? Which markets and customers are growing and which are declining?
4. How profitable are the customers constituting each segment?
5. What is the nature of the competition? How many companies are providing an alternative source of supply to our customers? What sort of service levels do they offer?
6. What is the nature of the channel of distribution through which the company sells? Does the company sell direct to the end customer, or through intermediaries? To what extent does the company control the channel and the activities of its members, such as the stock levels and order policies?

This basic information is the raw material of the service level decision. To take an example, the level of service offered is less likely to have an effect on sales if, in fact, the company is the sole supplier of the product, and there are no substitutes. The situation is the case in some industrial markets and from a short-term point of view to offer a higher level of service, say 90 per cent instead of 85 per cent, would probably have the effect of reducing the total profitability of the product.

Developing a customer service package

In general terms, customer service is normally defined as the service provided to the customer from the time an order is placed until the product is delivered. In fact, it is much more than this.

It actually encompasses every aspect of the relationship between manufacturers and their distributors/customers. Under this definition, price, sales representation, after-sales service, product range offering, product availability, and so on, are all dimensions of customer service, that is, the total activity of servicing one's customer.

However, it is more traditional to think of customer service in distribution-related terms. Under this more restricted definition the key elements of customer service are product availability, overall order cycle time and order cycle time variation. Research has shown that many companies have poor product availability due to a variety of reasons, for example, poor forecasting, production difficulties, inadequate inventory controls, and so on.

Above all else, it is fundamental for suppliers to derive and make operational their concept of customer service from a study of their customers' real needs rather than their own perceptions of such needs. The following list contains the major components of customer service that should be researched.

- Frequency of delivery.
- Time from order to delivery.
- Reliability of delivery.
- Emergency deliveries when required.
- Stock availability and continuity of supply.
- Orders filled completely.
- Advice on non-availability.
- Convenience of placing order.
- Acknowledgement of order.
- Accuracy of invoices.
- Quality of sales representation.
- Regular calls by sales representatives.
- Manufacturer monitoring of retail stock levels.
- Credit terms offered.
- Customer query handling.
- Quality of outer packaging.
- Well-stacked pallets.
- Easy-to-read use-by dates.
- Quality of inner package for in-store handling and display.
- Consults on new product/package development.
- Reviews product range regularly.
- Coordination between production, distribution and marketing.

It is fundamental for suppliers to derive their concept of customer service from a study of their customers' real needs.

This will almost certainly mean designing different customer service packages for different market groups. At present, very few manufacturers/suppliers bother to do this. Basically, six steps are involved in this process:

1. Define the important service elements (and sub-elements).
2. Determine customers' viewpoints on these.
3. Design a competitive package (and several variations, if necessary).
4. Develop a promotional campaign to 'sell' the service package idea.
5. Pilot test a particular package and the promotional campaign being used.
6. Establish controls to monitor performance of the various service packages.

Throughout many types of industry, and especially those that are highly competitive, it is increasingly being recognized that, after all the other terms of trade have been tried and exhausted, it will be customer service considerations that will determine who, in the end, gets the order. The distribution function is becoming as important as that.

APPLICATION QUESTIONS

1. Does your company have a problem with:
   a) Channel costs?
   b) Customer experience in individual channels?
   c) Customer experience across channels (multichannel integration)?
   d) Market coverage?
2. If the answer to any of the above is 'yes', are you clear what should be done, or do you need to apply the tools in this chapter to establish a multichannel plan?
3. Is any executive responsible for marketing, sales and service in an integrated way across multiple channels? Or do you have 'channel barons' responsible for different parts of the customer journey? If there is no single person responsible, can a multichannel governance board be set up?
4. What else might prevent you from making the changes you would like to make? Metrics? The investment case? Company culture?
5. Is logistics adequately represented at board or senior management level in your organization? How could improvements be made?
6. What coordination takes place between physical distribution management and marketing management? How can any problems be minimized?
7. How are decisions currently made concerning customer service levels?
8. How do service levels compare with competitors?
9. Can you see any way of making savings in your distribution system without reducing customer service?

CHAPTER 10 REVIEW

Channels for reaching customers

Channels no longer operate alone, but typically are combined within a customer's journey with the firm. Creative combining of channels can result in improvements to one or more of:

- total channel cost
- customer experience
- market coverage.

There is a range of possible channels, for example:

- Direct channels: sales force, call centres, direct mail, branches, retail outlets, transactional website, etc.
- Indirect channels: distributors, agents, retailers, specifiers (e.g. architects), influencers (e.g. NICE which makes treatment recommendations to UK doctors), etc.

Which channel or channel combination is best for competitive advantage? There are six steps to forming a multichannel plan:

1. Do a needs-based segmentation as far along the market map as a significant proportion of the buying decision is made.
2. Develop a channel chain for each segment to show how channels combine in the customer journey.
3. Develop a coverage map to show how channels vary by product and by market.
4. Develop channel curves to check the advantage to the customer of a proposed new channel chain.
5. Understand channel costs.
6. Pilot the new channel model, for example, using control groups.

Try Exercises 9.1 and 9.2

Physical distribution

For goods companies, physical distribution ensures products get to the right place, on time and in the right condition. In some businesses, distribution costs can amount to 20 per cent of the selling price. There are five components to manage:

1. *Facilities*. The number, size and geographical location of storage and distribution depots.
2. *Inventory*. The stockholding levels throughout the distribution chain consistent with customers' service expectations.
3. *Transport*. Made up of transport, delivery, schedules, etc.
4. *Communications*. There is also a flow of information, for example, order processing, invoicing, forecasting, etc.
5. *Unitization*. The way in which goods are packaged and assembled into large units, e.g. palletization, container loads, etc.

Considerable saving can be made by innovating in this area.

Distribution planning

The approach should follow these steps:

1. Determine marketing objectives.
2. Evaluate changing conditions in distribution at all levels.
3. Determine the distribution task within marketing strategy.
4. Establish a policy in terms of type, number and level of outlets to be used.
5. Set performance standards for distributors.
6. Obtain performance information.
7. Compare actual with anticipated performance.
8. Make improvements where necessary.

Try Exercise 9.5

Customer service and experience

Unless a firm has a clear advantage on product design, service will form at least part of the basis of competition. It contributes to customer satisfaction which in turn drives retention, share of wallet, positive word-of-mouth and, therefore, profits.

While what makes good customer service depends on the context, in general there are five dimensions to get right:

1. *Tangibility*. Physical facilities, equipment and the appearance of personnel.
2. *Reliability*. The ability to perform the required service dependably and accurately.
3. *Responsiveness*. The willingness to help customers and provide prompt service.
4. *Assurance*. The knowledge and courtesy of employees and their ability to inspire trust and confidence.
5. *Empathy*. The caring, individualized attention, which the firm provides to its customers.

Often, service levels are so patchy that competence on these five dimensions will yield a significant advantage. If, however, service standards are high within your sector, consider differentiating on the wider customer experience. This includes:

1. *The customer's usage processes*. The firm may be able to redesign these to the customer's benefit.
2. *Peer-to-peer interactions*. In many sectors, the firm can help customers to gain value from each other.
3. *Relationship*. In business-to-business contexts, but also many business-to-consumer contexts, it is critical that the firm stays in touch between transactions, proactively suggesting ways it can help and checking that its past sales are indeed leading to the results the customer hoped for.
4. *Brand image/communication*. The social impact of product/service ownership on the customer's peer group may be perceived as valuable.
5. *Emotions*. How we feel in interacting with the firm or using its goods or services can be as important in our assessment of the firm as the functional benefits we get.

Service considerations for goods companies

Customer expectations about product availability will vary from market to market. In theory, 100 per cent availability should be the norm. In practice, a compromise might have to be found, say 95 per cent, because the additional cost of providing that extra 5 per cent can be prohibitive. In addition, often such high levels of customer service are not necessary. Balance the benefits to the customer with the cost to you.

Factors which impact on customer service include:

- Frequency of delivery.
- Time from order to delivery.
- Emergency deliveries when required.
- Accuracy of paperwork.
- Stock availability.
- Reliability of deliveries, etc.

Key factors should be identified and researched with a view to improving them.

Try Exercises 9.3 and 9.4

Questions raised for the company

1. Q: How do I know when to review my channel strategy?
   A: If you have no difficulties with customer experience, your channel costs are acceptable, and you have the market coverage you need to achieve your objectives, then you do not need to review your channel strategy. Problems in any of these three areas suggest that you will need to read this chapter with care and go through the exercises.

2. Q: How important is it to have a distribution plan?
   A: It depends on the type of business. In some industries distribution costs amount to 20 per cent or more of sales revenue. Distribution is the Cinderella of marketing, but can often be the area where a competitive edge can be won – through planning.
3. Q: Can services be distributed? After all, they can't be stocked.
   A: No, but services can be franchised. Once a rational decision has been made to use indirect channels, it is the company's responsibility to work at developing a good business relationship based on trust and mutual respect. It is to both parties' mutual advantage.
4. Q: Are there any new developments in distribution?
   A: Franchising is becoming popular. In addition, some transport contractors now also supply warehousing, inventory control and other services, in effect providing the manufacturer with an 'off-the-shelf' distribution facility.
5. Q: I'm not in the entertainment business. Is customer experience relevant?
   A: Yes. The many entertainment examples of highly emotional customer experiences in the popular press are good for opening our minds to the importance of emotion and the process of dealing with the firm in all markets. But the specific value that customers require will, of course, be different in each context.

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

Exercise 9.2 helps you to decide whether or not intermediaries are required in your type of business.

Exercise 9.3 explains how intermediaries might be selected.

Exercise 9.4 addresses the physical aspects of distribution.

Exercise 9.5 is designed solely to get you to think about your own customer service from the customer's point of view.

Exercise 9.6 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.

(*Continued*)

Exercise 9.1: 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, 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 9.4 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 9.4 for an example). Channel chains may, for example, be named after the 'leading' channel in the chain – for example, see Figures 9.5 and 9.6. Choose a colour for each. Fill in each cell with the requisite colour, and add a key – for example, see Figure 9.5. 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 9.1)

	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

Exercise 9.2: 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.

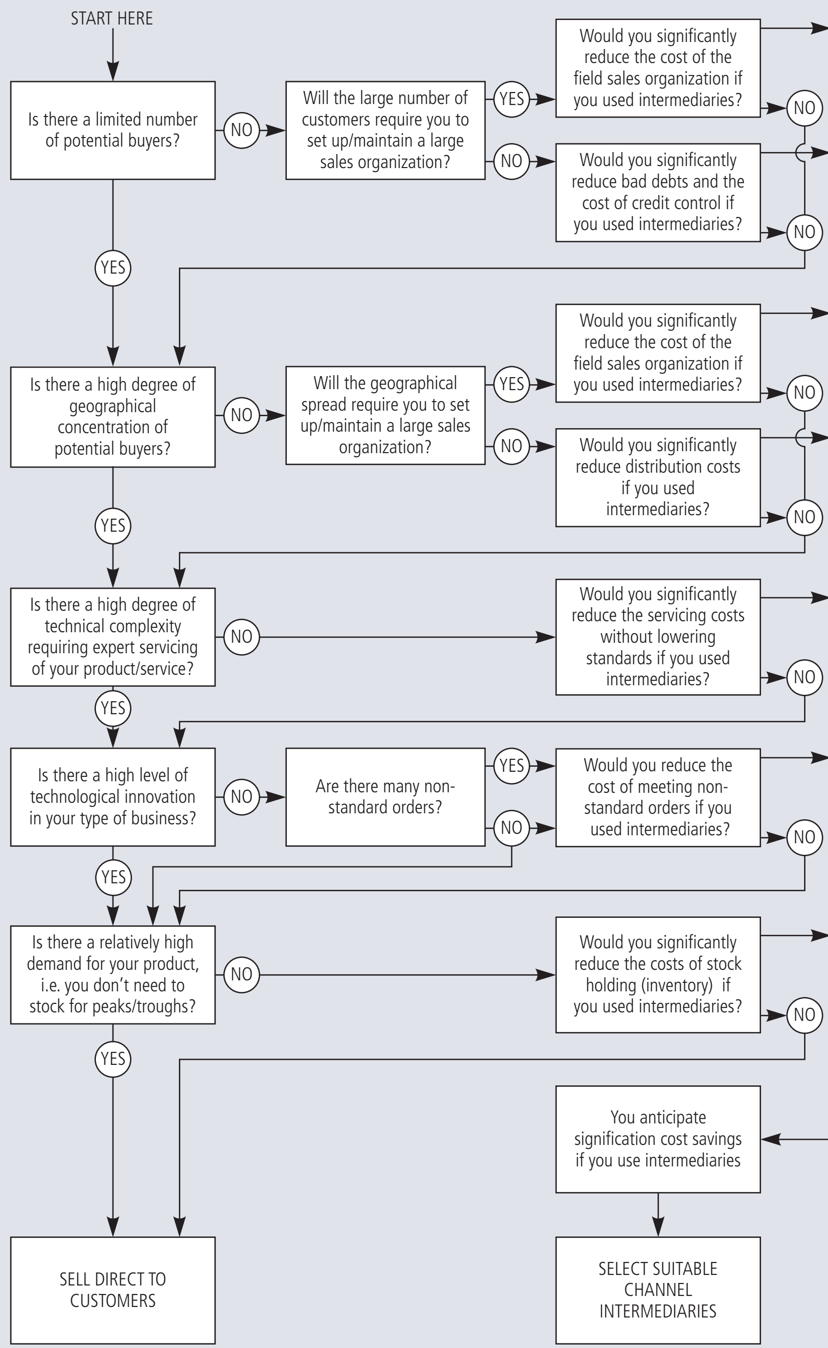
The worksheet is designed to help you to make a choice about channels of distribution. This is what you do:

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?

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.

(*Continued*)

Worksheet Distribution channel algorithm (Exercise 9.2)



Exercise 9.3 Selecting a suitable intermediary

Exercise 9.2 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:

1. 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.)
2. 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 (0 score) or an extremely good fit (10 points).
3. Continue down the list of evaluation criteria, repeating this scoring process.
4. Add any further criteria that are relevant for your business to the bottom of the list and score them likewise.
5. 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 3.2.

Worksheet Criteria for selecting intermediaries (Exercise 9.3)

	Prospective intermediaries		
Evaluation criteria	*A*	*B*	*C*
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			
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			

(*Continued*)

Evaluation criteria	*Prospective intermediaries*		
	A	*B*	*C*
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 9.4 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, and so on. 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, for example, for handling or stacking, by packaging them into different sized units such as shrink-wrapped bulk packs, pallet loads, container loads, and so on. It is often possible to win substantial cost savings in terms of handling or warehousing by considering this aspect of distribution.

(*Continued*)

Worksheet 1 Comparative inventory costs (Exercise 9.4)

Area of cost	*Product* (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 9.4)

Method of physical distribution	*Product/service* (1)	(2)	(3)	(4)	(5)
Use own transport					
Contract hire					
Use carriers					
Other forms of road transport					
______________________					
______________________					
______________________					
Passenger rail train					
Freight train					

Method of physical distribution	*Product/service*				
	(1)	*(2)*	*(3)*	*(4)*	*(5)*
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 9.5 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

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

(*Continued*)

answering 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 9.6 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.

(*Continued*)

Worksheet Developing a customer service package (Exercise 9.6)

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.

Components of customer service	*(1) Market strategy suggestions*	*(2) Best comp.*	*(3) Better, equal, worse*	*(4) Comp. cost H, M, L*	*(5) Actions to upgrade cust. serv.*	*(6) Alt. package*
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						

Components of customer service	*(1) Market strategy suggestions*	*(2) Best comp.*	*(3) Better, equal, worse*	*(4) Comp. cost H, M, L*	*(5) Actions to upgrade cust. serv.*	*(6) Alt. package*
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						
________________						
________________						
________________						
________________						

Exercise 9.7 Simulation practice

Note: the following exercise is best done in our global business-to-business simulation: GlobalB2B2Win.

In your game:

a) Draw a channel map that shows how your products flow out to the end customer. There is an example in one of the Research Reports – see if you can improve it.
b) What are the different Market Entry options available to you? What are the costs and benefits of each?

c) Choose the right Market Entry option for each international market.

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