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DISTRIBUTION MEASURMENT METHODS IN THE RETAIL ENVIRONMENT: PROBLEMS WITH LINKING TO FINANCIAL INDICATORS

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Abstract

This paper assesses opportunities for supply chain measurement with a focus on retail distribution metrics by applying a service-dominant logic (SD logic) and customer-dominant logic (CD logic) framework. Such measurement methods are non-specific to the SD logic and CD logic approach but these metrics may enhance their practical adaptation.

The main aim of the paper is to highlight the problems which exist with the financial measurement of marketing activities, while emphasizing the use of distribution methods. A further objective is to highlight management opportunities by examining the application of marketing metrics in retail trade and emphasizing the values of the SD and CD logic context.

Accordingly, the paper provides a contribution to categorizing marketing impacts in terms of measurability: short and long-lasting effects and direct and indirect impacts are classified regarding their predictability. A further outcome is the result of an analysis of market depth using market basket and breadth by all-commodity volume (ACV). The novelty of the paper is based on its application of SD and CD logic to marketing metrics.

The paper also addresses the main research questions related to distribution measurement methods and suggests avenues for further research.

Introduction

Especially due to the financial economic crisis, the relevance of measurability has been awarded enhanced status. Marketing managers are increasingly seeking out indicators of activity, because one of the first areas in which budgets are often reduced is marketing. This narrow-minded approach can cause negative and sometimes irreversible effects on a company because marketing has an indubitably positive effect on the effectiveness of a business.

Distribution concerns the activity of allocating products from the manufacturer to the consumer. The coordination and strategic leadership of the distribution channels refer to supply chain management. Information and measurement needs are assessed using internal databases and other external market research analysis which measures customer value and utility. Through this process these metrics may contribute to increasing a company's competitiveness and profitability.

The new marketing approaches, which place service (service-dominant logic, or SD logic) and the customer (customer-dominant logic, or CD logic) at the center of economic activity, are relevant from the perspective of marketing controlling activity. According to SD logic, the key information relates to the customer, as well as access capabilities such as consumer behavior, customer database monitoring, the ongoing analysis of markets, competence coordination and integration of the supply chain, which together form a value co-creation network (Vargo and Lusch, 2004a, 2004b; Tokman and Beitelspacher, 2011). Customer engagement and value co-creation contribute through the supply chain network to demonstrating and understanding network connections, interfaces and the system approach.

CD logic incorporates customer relations, emphasizing partnerships between the members of the distribution channel and underlining the importance of delimiting customer competences to create a more easily understandable framework for use in practice (Heinonen et al., 2010; Anker, 2015). However, unlike the approach followed in SD logic, CD logic – by utilizing customer commitment – may be considered a different perspective: engagement is not required, but represents an opportunity (Heinonen et al., 2013).

Corporate practices are, however, often narrower, focusing on performance measurement in the form of reported differences between planned and actual data, perhaps focusing on the measurement of customer satisfaction (Srivastava et al., 2005). Despite this, some multinational companies are a significant step ahead, both in terms of thinking, approach and their technology background. Marketing controlling can effectively support corporate sales if it is customer-oriented and also provides answers and strategic support for operational and tactical issues. Besides this, a firm's attention to metrics fosters marketing performance, even though companies generally only use a limited scoreboard (Mintz and Currim, 2013).

1. The Financial Relevance of Retail Marketing Measures

Problems with financial measurement are multifaceted (Figure 1.). They include an activity/subject and a time component. Marketing activities sometimes have direct and (often) indirect impacts which hinder the determination of their exact monetary value, but there exist proxies that could contribute to identifying some of the related revenue and expenditure. Some financial measures may correspond to marketing ones, even though a lack of interoperability is often problematic. Another quantification issue relates to the long-term effects of marketing strategies and activities which also cannot be directly connected to financial data. A further problem is that these effects are not always predictable.

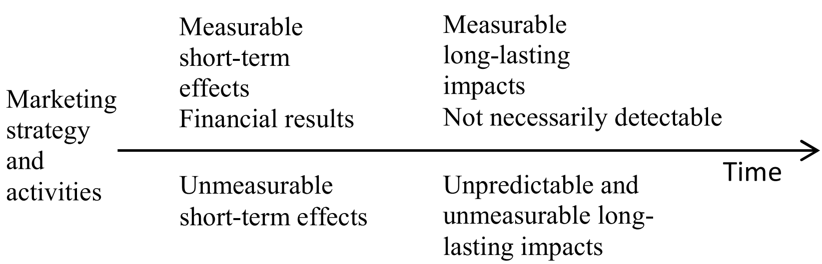

Figure 1.
Impact spectrum of marketing activities
Source: Author's construction

Unpredictable measures can be evaluated based on perceptions, which should be used to make approximations; a more precise picture can be gained by using behavioral indicators such as customer lifetime value (Gupta and Zeithaml, 2006). A counterexample is branding which has short- and long-lasting impacts on brand image, can enhance brand equity and opens up further opportunities such as brand expansion and extension (Stewart, 2009) which can enhance distribution and contribute to the enlargement of market share.

One of the most commonly used forms of analysis which can contribute to overcoming these obstacles is performance comparison of the company over different time periods. For example, this may include the following periods of financial analysis: (1) day on day; (2) week on week; (3) month on month; (4) year on year. However, these forms of comparative chronological analyses may be flawed due to unforeseeable circumstances: The environment cannot be controlled, thus other impacts on consumers cannot be filtered out.

The problem is greater in the case of service. Retailing and distribution are both considered services, including, inter alia: freight transport, product merchandise, and customer care. Using an SD and CD perspective, market players and distribution channel members' competences and resources may be integrated into the processes (Anker et al., 2015; Vargo and Lush, 2014a) yet may only (objectively) be poorly assessed. However, the service factor of a company influences its value; a greater share of services may correlate to higher value (Fang et al. 2008). Consequently, the inaccuracy of perceptions may be great, and thus so may indicators.

For these reasons, all such indicators should be used with caution. For example, taking the case of a seemingly unambiguous sales promotion such as 'two for the price of one', efficiency would typically be measured according to the increase in sales volume compared to previous periods. However such a marketing promotion may actually have encouraged consumers to try a product for the first time, and will lead to later re-purchases. Advanced customer relationship management (CRM) systems are able to correlate these purchases, but the frequency of purchase may extend beyond the financial period under examination (e.g. with purchases of durables or technical items). Besides this factor, because of the need to maintain business secrets CRM systems are rarely connected among members of a distribution channel, so if the same customer purchases the product somewhere else, it may not be detected.

According to the approach of SD logic, multiple customer competences should be harmonized, and within the studied framework transformed into financial metrics, which is nearly impossible.

Marketing activities can also influence cash flow, return on investment (ROI) and return on assets (ROA) which may be related to retail distribution. Purely analyzing direct impacts on cash flow can push marketing into rather tactical direction, instead of making it a strategic tool, which is not necessarily the most efficient method of developing marketing science (Stewart, 2009).

2. Measurement in a Retail Environment

Information serves as an input for design, creating the basis for a measurable target system, as well as any equipment that is required (Piskóti, 2014). Larger firms are more likely to apply financial indicators to evaluate marketing activities (Mintz and Currim, 2013). Performance measurement and the evaluation of outputs facilitate decision-making and allow for planning, as well as provide novel inputs for further innovation through a process of feedback (Auerbach, 2001). These activities contribute to the creation of a successful sales strategy and thus innovation in operational processes; they also increase efficiency.

Retail distribution metrics and supply chain measurement methods contribute to the analysis of the effectiveness of companies. In terms of retail distribution, the most frequently used measures have been identified according to the secondary literature. Among these, all-commodity volume (ACV) and market basket are explained below.

Distribution has a negative impact on cash flow in terms of the extent of the distribution channel (Srivastava et al., 2005), but regarding its efficiency, such as impact on brand and fast-moving consumer goods sales (Srinivarsan et al., 2010), brand loyalty (Huang and Sarigöllü, 2012) and increases in economies of scale, it can generate positive effects.

In the framework of SD logic and CD logic the process should be launched and focused on the consumer. Thus, the consumer should be able to define where the service should be provided. Online distribution fulfills this role due to how it assists with decoupling in space and time. Offline retail trade should be researched more deeply to see how consumer competences and resources can be recognized and incorporated to create retail service. In practice, retailers are not always able to study the preferences of consumers directly, thus they try to explore the market basket which is a type of customer-related value-based approach.

2.1. Analyzing Market Basket

Market or consumer basket refers to cross-category purchases in which the items or categories purchased by the customer are bundled in one transaction (Mild and Reutterer, 2003). The product categories include a range of substitutes and complementary products. Moreover, a category contains product segments which belong to several producers. Each producer has brands, and each brand has product items.

The market basket can be expressed in terms of quantity or/and value. Both can be targeted for improvement by companies. The total number of consumer baskets reflects total sales. The composition of the basket should be shifted towards higher priced products (Farris et al., 2015).

Market basket analysis enables the recognition of consumer behavior through the examination of stock-keeping units purchased in parallel, among which correlation exists. This can lead to promotions as well as cross- and upselling (Richards and Jones, 2008, Chen and Vargo, 2014). In the case of often simultaneously purchased products, the company can cross-sell, while, for example, including a relatively rarely purchased product into the offering. Upselling supports the purchase of higher quality and price combination products. In practice, it is applied in a still more sophisticated way. CRM systems, especially customer behavior tracking loyalty systems combined with loyalty purchasing cards, reveal that some customer segments often purchase different products together; accordingly, complementary purchases should be promoted through communication and in-store marketing (such as merchandising, shelf positioning and facing), but product development can be also defined using these market data. Exploration of the market basket can also contribute to improving communication strategies.

Approached from the SD and CD perspective, these personalized, real value-based offerings and communication methods can improve the customer experience and bring the customer closer to the company, increasing loyalty.

2.2. Contributing to Enhancing Market Presence: Analysis of ACV (All-Commodity Volume)

As distribution based on SD logic is regarded as a value creation network (Tokman and Beitelspacher, 2011), overall value co-creation can be increased by the market presence of the service.

The ACV indicator can be applied to measure product-specific geographical and regional coverage. It can enable the measurement of market breadth. ACV is not equivalent to market share, but ACV can be a consequence of market share (Kwak et al., 1991). The total volume of sales of a given article are compared to the total sales in a region; that is to say, to the value of the given stock-keeping unit sold in stores in a defined area relative to these stores' overall sales. Accordingly, the measure refers to the intensity of market presence (Huang and Sarigöllü, 2012), particularly the availability of the product, or using another perspective, the potential (but not necessarily already reached) customer. The measure is not suitable for assessing the turnover of each product category, but rather it enables the evaluation of the weight of the assessed item in the region. ACV can be visualized in the form of a ratio:

$$ACV = \frac{\text{Total sales volume of article in a given region}}{\text{Total sales volume in a given region}}$$

$$ACV\% = \frac{\text{Total sales volume of article in a given region}}{\text{Total sales volume in given region}} \times 100$$

On the basis of ACV, the extent of distribution can be determined for sales at every store so a producer or the brand-rights owner can focus on high-traffic businesses. When turnover data is lacking, the all-commodity volume may be calculated according to shop space (Reibstein and Farris, 1995; Farris et al., 2015).

ACV is more applicable to sales in stores with higher sales volumes, which are usually more profitable. The average volume of ACV% in retail trade is approximately 70-85%, depending on product type (Huang and Sarigöllü, 2012). ACV is closely related to merchandise intensity. To enhance the level of ACV%, shelf presence should be ensured.

At a higher level of ACV%, the service is closer to the customer, which facilitates their involvement in the value co-creation process. At this point, the 'convenience to buy' (Lauterborn, 1990) means that customers' and companies' competences can be integrated and harmonized into value co-creation.

Conclusion and Further Research

According to the assessed literature, a major obstacle to increasing profitability is narrow-mindedness and, even more, a failure to understand that marketing activities can be turned directly into financial measurement assets. Nonetheless, the market expects marketing managers to think in measureable terms and implement campaigns to prove their strategies using reference to previously recorded targets. However, it is mainly short-term direct impacts that are recorded in this case, thus long-lasting effects should be considered after assessing them against the former statements.

Employing the findings of secondary research, the following hypotheses are defined which may be pursued in further studies:

H1 Larger companies use more financial metrics to measure marketing impacts.

H2 Only a few financial metrics are used regularly by companies.

H3 Market basket analysis contributes to incorporating customer competences into company processes.

H4 By enhancing retail distribution, the availability of a service can be increased, which contributes to customer involvement.

Companies should synchronize customers' competences, marketing and financial measurement resources to enhance shareholder value and profitability. Assigning practical marketing metrics to SD and CD logic can enhance the application of theory in practice, which may be useful especially in the retail trade.

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