

Abstract of dissertation by

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Management of Distribution Networks

A concept for successful management of corporate networks in the context of Efficient Consumer Response cooperation.

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Since 1994, traditional distribution channels for consumer goods have been restructured under the banner of "Efficient Consumer Response (ECR)" in order to eradicate conflictory behaviour between manufacturer and channels. The objective is to avoid confrontation and develop integrative marketing and logistical measures which satisfy consumer expectations faster, more effectively and at a lower cost. In ECR cooperation, independent manufacturing and retailing organisations coordinate their sales-related activities both legally and economically with respect to goods (*efficient replenishment*), *efficient promotion* and *efficient product introduction*. This requires a restructuring of processes, organisational structures and a division of labour in the distribution channel away from a purely functional approach, and towards a performance-orientated cooperation beyond the boundaries of the company.

An empirical investigation encompasses the entire value chain and includes the implementation problems and reasons for abandoning cooperative ventures. These factors assume a different relevance for small and medium-sized food companies, in comparison to the larger ones. The deficits which impede ECR cooperation can be summarised into four "hindrance" factors:

- 1. Network deficit factor** relating to all value chain links - coordination problems amongst cooperating partners, including insufficient participation or authority, poor management, inadequate standardisation and lack of viable implementation of ECR processes or strategy components.
- 2. Partner deficit factor** relating to ECR implementation problems arising because of a lack of skills or know-how, top management commitment, inadequate process organisation or power abuse from a cooperative partner.
- 3. ECR interaction deficit factor** referring to conceptual shortcomings in actual ECR partnerships. Examples are the failure of any one company to assume a category captain function, insufficient communication of brand management, assortment strategies between the various partners or an insufficient integration into the value chain of all enterprises affected by ECR processes.

- 4. Own-enterprise deficit factor** relating to ECR implementation due to insufficient competence, know-how, top management commitment and exploitation of turnover potential by an individual company.

Enterprise networks can be implemented as a form of organisational coordination in order to resolve such integrative deficits: a coordinative orientation towards a common goal in value chain partnerships can be achieved through focal network management by one enterprise or through polycentric networks. However, the formation of such enterprise networks does not evolve automatically, but is the result of a deliberate process by one (or more) central enterprises with respect to all interested partners.

As a **system head**, the **focal firm(s)** can assume the management of all network actors, in order to integrate the application of coordinating instruments, measures and units into a goal-oriented productive entity. Specifically, the system head provides coordinative and conflict-reducing measures so as to ensure that all actors work towards the mutually agreed competitive objectives of the network. Such measures vary in their dependence on the operational and/or strategic orientation of the network, so that ideally, a distinction can be drawn between a systems management of *operational or strategic* corporate networks. In this context, the position of the system head within the network depends on the degree of interaction and productive/services capital which it assumes from the network.

The **positive impact of such system management** can be observed in terms of increased effectiveness and efficiency of network coordination. System management can be regarded as effective if its application contributes not only to the actual formation of the network but also to the resolution of prevailing coordinative deficits. Efficiency, on the other hand, refers to comparative economic viability in comparison to other forms of coordination. In this context, the limits of system management of organisational networks, can be attributed to coordination costs, autonomy of the various actors, limited managerial capacity and competitive restrictions.

The **formation of ECR partnerships between the different stages in the value-chain** leads to the stated coordination deficits of all value chain participants in manufacturing, retailing and service sectors. Their increasing interdependence in the production of all distributive services can be coordinated functionally within **distribution networks**. The system head (for example a focal firm) can institutionalise the competitive orientation, according to the nature of system management of enterprise networks. In general, particularly network and own-enterprise deficit factors can be overcome efficiently through a system-led distribution network. Thus, system-management variants for operational and strategic networks can be differentiated from one another as distinct scenarios. In order to achieve rationalisation advantages through network and bundling effects within **operational distribution networks**, the **non-core-competence** ECR contributions of manufacturers and distributors are "quasi" integrated and coordinated through service providers. The system management of such networks is particularly efficient in terms of the **operational** use of coordinative instruments relating to participation, size, standardisation and regulative deficits.

Strategic distribution networks, on the other hand, aid in exploring new, core-competence and exclusive competitive advantages, so that the management of a viable and manageable number of actors is assumed by a distributive or manufacturing enterprise within the value chain. Through the coordination achieved by the system head, conceptual ECR interaction and partner deficits in particular, can be overcome efficiently, with the aid of strategic coordination instruments, in order to create independent ECR networks within a competitive environment.

In practice, four distinct **types of distribution networks led by systems heads**, can be identified. Their limits also lie predominantly in the level of autonomy of the network actors, the limited managerial capacity of the system head and in competitive regulations in the market. Nonetheless, system-head based distribution networks seem well suited to overcoming the deficits indicated earlier, which currently prevent a broad and successful introduction of the ECR concept in the German food distribution industry.