

# The evolving world of distribution management

Common sales and logistics models in  
the consumer and retail industry



Distribution management (DM) in the consumer packaged goods (CPG) industry creates many new challenges for today's distribution system operators, from business drivers to environmental factors.

CPG and retail companies — collectively known as C&R — use a variety of DM approaches depending on their geography, line of business and product type. In fact, many multinational companies use multiple models across their organization based on those factors. Because these companies regularly evolve their product mix, geographic coverage and execution costs, the specific models they use continue to evolve. This leads to some interesting hybrids of the DM models covered in this paper.

One thing is clear: One size definitely does not fit all.

To help you decide what is best for your enterprise, this paper:

- Defines DM
- Identifies the primary C&R DM models
- Identifies and describes the main implementation variations
- Outlines the advantages and drawbacks of each DM model variation

### **What is distribution management?**

A full DM process coordinates the movement of goods from a manufacturer (brand owner) to the retail point of sale. This can involve numerous activities and processes.

Typically, certain aspects — supply chain planning and execution, warehousing, inventory control and order fulfillment — are provided by a combination of enterprise resource planning (ERP) systems (e.g., SAP, Oracle, homegrown) and integrated companion systems (either packaged or homegrown).

For simplicity, this paper does not cover distribution management for those activities. It touches instead on other aspects — fleet operations, packaging, shipping, receiving, and in-store inventory and stocking — involved in the four primary types of DM:

1. Centralized distribution
2. Food services
3. Direct store delivery
4. Business to consumer (also known as direct to consumer)

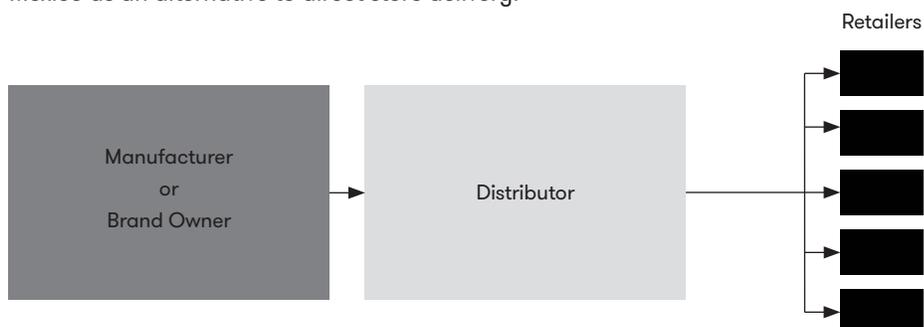
#### **Centralized distribution**

Centralized distribution is the most widely used model for standard goods such as clothing and nonperishable foods. It addresses industry challenges and has the most efficient distribution model.

In centralized distribution, manufacturers ship products to distributors that aggregate multiple products from one or multiple manufacturers in a single centralized distribution center, regional distribution centers or distributed fulfillment centers, and send large, multiple-item shipments to retailers.

There are two main distribution center (DC) variations:

**A two-tier DC model (Figure 1)** has a primary distribution point for products received from the manufacturer or brand owner. This model is frequently used in Mexico as an alternative to direct store delivery.



**Figure 1.** Two-tier distribution center model

In the two-tier model, delivery drivers (either third-party providers or employees) typically perform every role, including merchandising, sales and collections. Drivers usually collect payments in cash, although electronic collections — private label credit, microfinancing and social media payments such as WeChat — are increasingly used.

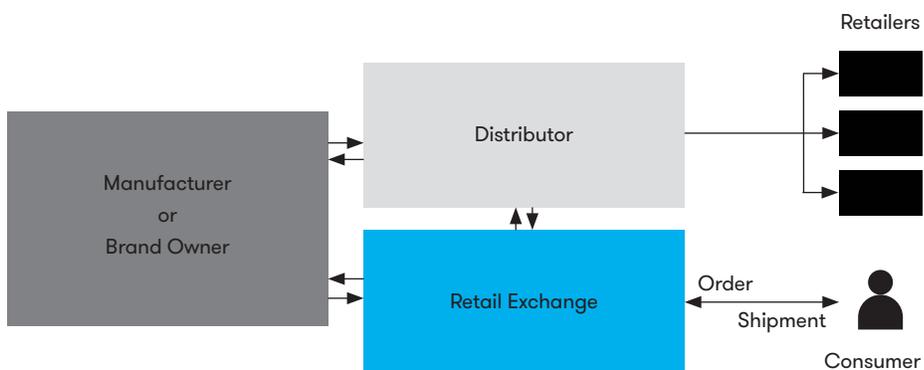
**Advantages**

- Meets regulatory requirements for product refresh
- Can move products that might be wasted/unsold/returned

**Challenges**

- Lacks insight into direct consumer buying trends
- Cash usage increases fraud/theft concerns and lacks traceability
- Van sales for perishable goods increase the likelihood of price negotiations/ reductions vs. return to the distribution center
- Returns are typically in the form of waste

**The multitier DC model (Figure 2)**, the most commonly used model across the globe, adds one or more DC layers to the two-tier model.



**Figure 2.** Multitier DC model

These additional layers may address regional distribution needs and could include retail exchanges that act as fulfillment centers.

**Advantages**

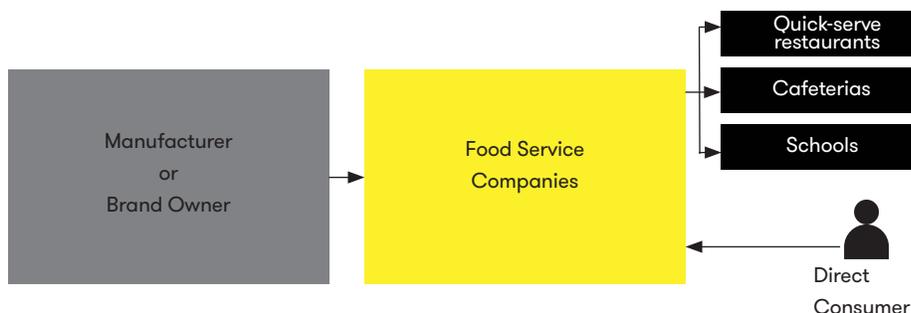
- Collections are typically done via electronic funds transfer/business-to-business (EFT/B2B)
- Unless the manufacturer operates the distribution center, the overall costs are lower, as the DC handles endpoint distribution and retailers assume the sales/merchandiser role

**Challenges**

- The added layers further degrade the manufacturer’s ability to have insight into client behavior/preferences
- Manufacturers’ marketing efforts are more general and rely on retailers
- Returns are handled by the DC/retail exchange

**Food services**

Food service companies are intermediaries between manufacturers and food service operators (**Figure 3**). The operators in this sector include organizations that prepare and dispense meals outside the home, such as restaurants, school and hospital cafeterias, catering operations and vending machines.



**Figure 3.** Food service model

Food service products are usually offered in larger, industrial-sized packages that lack the colorful label designs of their consumer retail counterparts.

**Advantages**

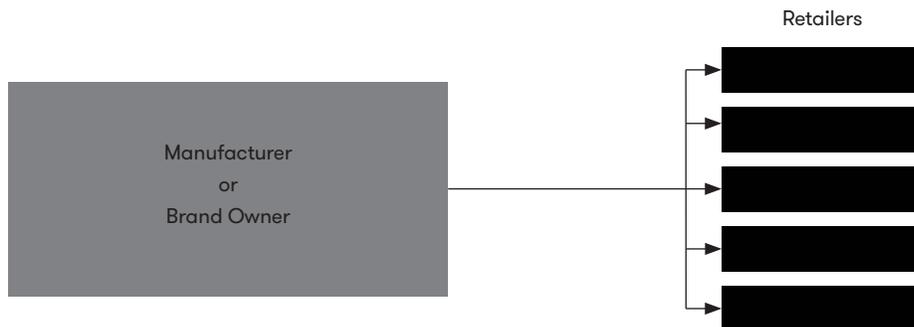
- Provides additional sales channel for products
- Reduces manufacturers’ costs for distribution/merchandising/sales

**Challenges**

- Similar challenges exist for both DC models

**Direct store delivery**

Direct store delivery (DSD) has strong similarities to the two-tier DC model with one notable exception: Manufacturers/brand owners ship products directly to retailers/stores, bypassing the distribution center (**Figure 4**).



**Figure 4.** Direct store delivery model

**Advantages**

- Addresses regulatory/direct refresh needs for perishable goods

**Challenges**

- Increases costs to manufacturer

Companies using the DSD model typically have merchandise in one or more of the following categories:

- Short shelf life or easily damaged, such as bread, eggs, dairy, beverages, potato chips
- Locally sourced or locally manufactured, such as niche coffee roasters, farm-to-table produce
- Special handling or training involved

The two main DSD variations are the two-tier and three-tier models. The key difference between them is who performs the main functions of delivery, merchandising and selling.

**Two-tier DSD** (common in the beverage industry): Drivers may perform all functions.

**Three-tier DSD:** Drivers focus primarily on delivery. A field sales representative can perform the sales and merchandising functions, or these functions can be performed by a field sales rep and a third-party merchandiser.

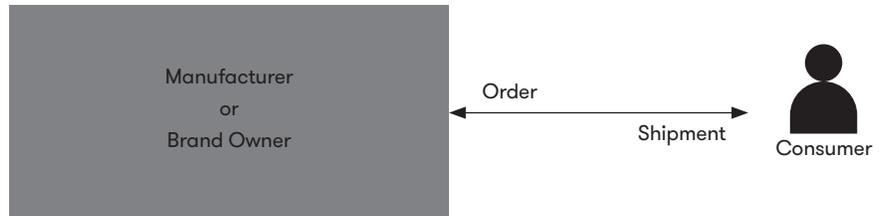
Due to the higher associated DSD costs for fuel, fleet, field sales and so forth, many companies are switching to a DC model where possible.

**Hybrid variation:** Some manufacturers use hybrid DSD models whereby they send products (based on business rules) to a combination of stores, regional warehouses and distribution centers. In fact, some manufacturers negotiate to use the retailer’s network of stores, warehouses and distribution centers.

**Business to consumer**

The business-to-consumer (B2C) retail model — and the direct-to-consumer (D2C) marketing model — directly engage with the product consumer. Consumers order the desired goods directly from the manufacturer or retailer (**Figure 5**).

Retail outlets or fulfillment centers (also known as distribution centers) fulfill and ship orders to consumers using commercial carriers.



**Figure 5.** Business-to-consumer model

**Advantages**

- Improves direct marketing/sales insights
- Creates a direct relationship with consumer
- Offloads role of distributing to consumer onto third parties (USPS, UPS, FedEx, etc.)

**Challenges**

- Requires manufacturer to have e-commerce/analytics capabilities

## Conclusion

Determining the best distribution model is highly dependent on your business, products and operating regions. Whether you are a small to midsize business or a global multinational corporation, the operating landscape is always changing.

One cost-effective approach that helps product manufacturers of all types with distribution management is implementing a platform with modular capabilities that integrates with existing investments in ERP, financials and other back-office systems.

To help you refine your goals and identify the solutions that best fit your specific business needs, it is helpful to work with a systems integrator with C&R experience such as DXC Technology.

## About the author

**Scott Holmes** is a chief technologist at DXC Technology and focuses on the consumer and retail industry. He has over 30 years of experience in consulting, software and technology.

**Learn more at [www.dxc.technology/cpg\\_retail](http://www.dxc.technology/cpg_retail)**

 **Get the insights that matter.**  
[www.dxc.technology/optin](http://www.dxc.technology/optin)

### About DXC Technology

DXC Technology (NYSE: DXC) helps global companies run their mission critical systems and operations while modernizing IT, optimizing data architectures, and ensuring security and scalability across public, private and hybrid clouds. With decades of driving innovation, the world's largest companies trust DXC to deploy our enterprise technology stack to deliver new levels of performance, competitiveness and customer experiences. Learn more about the DXC story and our focus on people, customers and operational execution at [www.dxc.technology](http://www.dxc.technology).