

CHANNEL SEPARATION

- As a basis for Supply Chain Management and Networking

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Abstract

This paper focuses on a vision of what will occur in business environment and channels when networks and supply chains turn in more efficient structures. Some essential questions are: Firstly, which channels are most important from supply chain management's perspective. Secondly, how channels covering structures from raw materials to end users, are formed in the future. Thirdly, what are the consequences to networks. In order to answer these questions, channel separation is introduced as a tool for analyzing networking and supply chain management. Channel separation with four separated channels is discussed in more detail.

Motivation

Supply chain management and networking are approaches introduced for replacing hierarchic structures. Supply chain management is an extended concept that goes beyond logistics. The main aim is to link together a chain of different parties/companies from raw materials to final users. The fundamental objective is to create a more profitable outcome for all parties in the supply chain. Network theory, on the other hand, describes the general network logic explaining the network's changing structure (Håkansson 1987). One of the advantages of both approaches is that they use comprehensive scopes. Comprehensive scope is required, indeed, when speculating of the future business structures and relationships. Another important phenomenon raising up is joint goals. Increased interest toward joint goals is a consequence of expanding outsourcing of operations and a trend toward focusing on core competencies. However, the limitation of supply chain management literature is a scarce discussion that observes future structures. On the other hand, the limitation of the industrial network theory is that it does not often grant actors having joint goals (Tuusjärvi 1999).

The change process in supply chains and networks can be illustrated with an example. At the beginning of this century, channels were basically single and integrated to each other. Only one person, the seller, delivered products to market, sold the products and charged money from the customers. Today, physical distribution channels and selling channels are becoming separated. Products can be sold in one country and distributed from another, thus, having a central warehouse serving several markets. This type of structures are often based on co-operation i.e. outsourcing of operations. As a consequence, outsourcing of businesses and operations leads to increasing complexity in the business networks. Accordingly, there will be increasing amount of different type of companies in the market. Increasingly important will be decisions when actors/companies are defining their core competencies and role/s in

supply chains and networks. Other questions will be with whom to integrate and who have the same type of goals. The higher level question is what does the structures of SCs look like in the future. SCM approach help us to identify members and processes of SC, but it doesn't tell much about the future – what is really changing. We argue that a view foreshadowing the *future* and *joint goals* are attaining increased interest.

Literature review

In order to channels, they are discussed from different perspectives both in logistics and marketing literature. The aim of the literature is to portray the variety of channels and use it as help when defining the most important channels related to supply chains. In logistics literature, Bowersox (1978, 1986), introduced the idea of channel separation with two flows that he called transaction creating efforts and logistical efforts. In order to achieve a satisfactory marketing process, a flow of transaction creating efforts and a flow of logistical efforts must exist and be coordinated. Van Damme's and Ploos van Amstel's (1996) division for logistics activities cover physical flows, and information flows. Abrahamsson and Brege (1997) offer three flows: materials, physical distribution, and sales. Moreover, Cooper et al. (1997) propose several processes crossing boundaries within the company and between the companies. They do not discuss about flows, but the processes they mention are very similar to flows discussed and they are: product flow, customer relationship management, customer service management, demand management, order fulfillment, manufacturing flow management, procurement, product development, and commercialization and return channel.

Marketing literature is mainly focusing on marketing channels. Roosenbloom (1995) suggests five flows in marketing channels: product flow, negotiation flow, ownership flow, information flow, and promotion flow. Often logistics is not observed as a separate channel. However, logistics is observed important and is determined as a process of systematizing information to facilitate the efficient and cost effective flows of goods and services to generate customer satisfaction (Pelton et al. 1997). All together from the literature at least ten flows that can be separated from each others such as marketing flow, promotion flow, selling flow, ordering flow physical distribution flows, product development flow, product flow, information flow, return flow and ownership flow. The question is which of these flows could be the most important ones when describing and analyzing the structure and the future of supply chains?

Channel Separation

Four flows of channels are chosen to describe the structure of supply chains: *selling*, *ordering*, *physical distribution*, and *payment channels*. These four separating channels are discussed under the term “*channel separation*” (Bask & Vepsäläinen 1997, Bask 1999). Channels are described:

- *selling channel* is a chain of companies concerned with all the operations in sales activities and decisions, from available possibilities as well as new structures for selling channel choices. Channel is responsible for serving customers with flow of all information concerning products and services
- *ordering channel* is a chain of companies that consists of all the operations concerning ordering activities as well as decisions about ordering channel's structure
- *physical distribution channel* is a chain of companies that are concerned with product planning, production and physical movement of different types of products and decisions for the structuring of these activities starting from raw materials ending at final products
- *payment channel* is a chain of companies covering the decisions and structures concerning payment, insurance, and finance activities in the supply chain

The flows of four channels are chosen for at least three reasons. Firstly, they describe the four most important channels in the supply chain. Secondly, these channels can be organized separately. Thirdly, these separate channels will get their own protocols for operations and services (i.e. such as internet for marketing and ordering purposes). In the paper we argue in more detail why channel separation is the mode for the future and why separated channels are more efficient ones.

Networks

When customer requirements are expanding, channel choices increasing, and calling for customer orientation from SCs and networks, there are new needs for network structures. There are different companies operating in these channels and all type of relationships are strongly needed. Selling channel, electronic commerce, might require totally new organization and relationships for physical distribution and payment channel operations. In order to networks there is a need to describe and identify alternative type of actors (old and new ones) operating in separate channels. Then, we are capable to discuss different type of supply chains and the strategic decisions with whom to *integrate* in the SC. When aiming “best fit” SC networks, for all of four separate SC channels, flows and decisions for global-local structures can be designed separately. In the future successful SC network are those which are lead by constant search for win-win solutions based on mutuality and trust. The following four themes, which call for change sensitivity, provide the basis for successful SCM: (1) responsiveness, (2) flexibility, (3) effective operations, and (4) right solutions.

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