8. All-commodity volume, extended enterprise, Good distribution practice and Liquid logistics.

8.1 All-commodity volume

All-commodity volume (value) or ACV represents the total annual sales volume of retailers that can be aggregated from individual store-level up to larger geographical sets. This measure is a ratio, and so is typically measured as a percentage (or on a scale from 0 to 100).

The total dollar sales that go into ACV include the entire store inventory sales, rather than sales for a specific category of products – hence the term "all commodity volume."

ACV is best related to the key marketing concept of placement (Distribution). Distribution metrics quantify the availability of products sold through retailers, usually as a percentage of all potential outlets. Often, outlets are weighted by their share of category sales or "all-commodity" sales. For marketers who sell through resellers, distribution metrics reveal a brand's percentage of market access. Balancing a firm's efforts in "push" (building and maintaining reseller and distribution support) and "pull" (generating customer demand) is an ongoing strategic concern for marketers.

8.1.1 Purpose

All-commodity volume measures a firm's ability to convey a product to its customers in terms of total sales among outlets carrying the brand.

8.1.2 Construction

All-commodity volume (ACV) is a weighted measure of product availability, or distribution, based on total store sales. In other words, ACV is the percentage of sales in all categories that are generated by the stores that stock a given brand (again, at least one SKU of that brand) (note: ACV can be expressed as a percentage or as a dollar value (total sales of stores carrying brand).

All Commodity Volume (ACV) Distribution (%) =100 x Total Sales of Stores Carrying Brand ($) ÷ Total Sales of All Outlets ($).

8.1.3 Usage discussion of ACV

This is the annual dollar sale for a geography in millions of dollars. When dividing total sales for an outlet into ACV million dollar blocks, it allows for equivalization across inherently different sized market or retailers in size. A large share of sales in Des Moines may or may not be as important as having a lesser share in New York City. The open question in the above case can be resolved by dividing sales regardless of outlet into a sales rate per million dollars.

8.1.4 Example calculation

Assume in a city there are two hardware retailers.

The first retailer boasts five big-box store locations that boast weekly ACV (total sales of all products) of $15MM per.

The second retailer may also feature five store locations, but they tend to be closer to mom and pop size, with average weekly ACV at only $5MM per.

The total market size is ten hardware stores, and $100MM in total market ACV.

Assuming a tool-set a company produces is only distributed in the second smaller-store chain, it is obviously represented in half the store locations (50%). However, all stores are not created equal; based on the above numbers, the tool-set would only be selling in a quarter of the total market ACV (25%).

In the converse scenario of distribution within only the big-box retailer, the tool-set would similarly be distributed in half the stores, but those stores would represent 75% total market ACV.

Given the choice, a business typically prefers its distribution in higher-volume stores for the greater sales potential. More consumers spending more total dollars occurs in these outlets, indicating more traffic and/or average spend per consumer.

Within marketing and sales circles, the percentage of stores a product sells within is less relevant than a product's share of the store ACV value.

8.1.5 Examples of application

Based on the above logic, common applications of ACV equalization are as follows:

The overall importance of one retailer vs. another in terms of sales volume, or even geographical locations (e.g., New York Metro vs. Omaha).

An item (e.g., mayonnaise), or even grouping of items (e.g., grocery dry goods) has an average share of every million dollars of sales in a sales outlet, representing its overall importance to that outlet.

As the example above, an item or aggregated grouping of items can have its distribution measured in equivalized fashion – what percentage of the total market ACV does a product actually sell in (i.e., appear on the shelf)?

Related to share above, an item or category of items can have a sales rate per million dollars of ACV. This allows for comparison of how well an item sells in one outlet vs. another regardless of its overall distribution. This is often referred to as weighted sales velocity.

What percentage of ACV$ in a market is a product or grouping benefiting from trade merchandising such as feature advertisements, in-store point of sale display, coupons, etc. One can then deduce how much one time period has extra merchandising support versus another.

8.2 Channel value proposition

Channel value proposition is a business model used by suppliers to attract members of its distribution (business) channel. This is made up of many elements, depending upon the sophistication of the supplier and channel members, and the intensity of competition for share of the channel. According to Julian Dent in his book "Distribution Channels", the most important elements are:

1) Growth – emphasizing the level of demand for the supplier's products or services and the investment it will make in stimulating demand.

2) Profitability – showing the margins, contributions, utilization of overheads and net profitability that selling the supplier's products or services will deliver to the channel member. This can be augmented by special funding and other payments made by the supplier for activities carried out by the channel member (putting items

on display or emphasizing them in marketing materials, etc.) or for performance (achieving volume thresholds, reaching a specific segment of the market, etc.)

3) Return on capital – demonstrating the productivity of the channel member's investments in inventory, working capital or fixed assets will be improved by engaging with the supplier. For example, a fast turning product will accelerate the channel member's inventory turns, increasing the productivity of its warehouse, shelf space or website.

4) Brand – showing how the association with the supplier will empower the channel member's own brand, or allow it to "borrow" or leverage the supplier's brand. For example, often seen when small dealers and retailers post "authorized reseller" or similar badges on their letterhead and premises to demonstrate credibility to the end customer.

Skilled suppliers research their channel members' needs to ensure that they tune their channel value proposition to these needs to gain more traction in winning share of the channel and to minimize the cost of so doing.

8.2 Extended enterprise

An extended enterprise is a loosely coupled, self-organizing network of firms that combine their economic output to provide products and services offerings to the market. Firms in the extended enterprise may operate independently, for example, through market mechanisms, or cooperatively through agreements and contracts.

Alternatively referred to as a "supply chain" or a "value chain", the extended enterprise describes the community of participants involved with provisioning a set of service offerings. The extended enterprise associated with "McDonald's", for example, includes not only McDonald's Corporation, but also franchisees and joint venture partners of McDonald's Corporation, the 3PLs that provide food and materials to McDonald's restaurants, the advertising agencies that produce and distribute McDonald's advertising, the suppliers of McDonald's food ingredients, kitchen equipment, building services, utilities, and other goods and services, the designers of Happy Meal toys, and others.

Extended enterprise is a more descriptive term than supply chain, in that it permits the notion of different types and degrees and permanence of connectivity Connections may be by contract, as in partnerships or alliances or trade agreements, or by open market exchange or participation in public tariffs.

How an extended enterprise is organized and structured and its policies and mechanisms for the exchange of information, goods, services and money is described by the enterprise architecture.

The notion of the extended enterprise has taken on more importance as firms have become more specialized and inter-connected, trade has become more global, processes have become more standardized and information has become ubiquitous. The standardization of business processes has permitted companies to purchase as services many of the activities that previously had been provided directly by the business entity. By outsourcing certain business functions that had been previously self-provided, such as transportation, warehousing, procurement, public relations, information technology, firms have been able to concentrate their resources on those investments and activities that provide them the greatest rate of return. The remaining "core competencies" determine the firm's unique value proposition.

8.3 Good distribution practice

Good Distribution Practice (GDP) deals with the guidelines for the proper distribution of medicinal products for human use. GDP is a quality warranty system, which includes requirements for purchase, receiving, storage and export of drugs intended for human consumption.

GDP regulates the division and movement of pharmaceutical products from the premises of the manufacturer of medicinal products, or another central point, to the end user thereof, or to an intermediate point by means of various transport methods, via various storage and/or health establishments.

8.3.1 Legislation

In Europe GDP is based on the Directive of the Board of the European Community 92/25/EEC regarding the wholesale distribution of drugs for human consumption.

In US GMP is based on the Code of Federal Regulations 21 CFR 210/211, and USP 1079.

8.4 Liquid logistics

Liquid logistics is a special category of logistics that relates to liquid products, and is used extensively in the "supply chain for liquids" discipline.

Standard logistics techniques are generally used for discrete or unit products. Liquid products have logistics characteristics that distinguish them from discrete products. Some of the major characteristics of liquid products that impact their logistics handling are:

Liquids flowing from a higher level to a lower level provide the ability to move the liquids without mechanical propulsion or manual intervention.

Liquids' adaptation to the shape of the container they are in provides a great deal of flexibility in the design of storage systems and the use of "dead" space for storage.

The level of a liquid as it has settled in a tank may be used to automatically and continuously know the quantity of liquid in the tank.

Liquids provide indications through changes in their characteristics that may be sensed and translated into measures of the quality of the liquid.

Many security and safety risks are significantly reduced or eliminated using liquid logistics techniques. Tools such as liquid level sensors and flow meters can be useful in reducing security risk by providing directly,near real-time and accurate measurements of product's movement and balance along the supply-chain flow. The safety risk is reducing as product movement through the process of supply stream is independent and controlled.

Liquids may in some cases be "processed" well downstream from the original production facility and thus offer the opportunity for improved efficiencies throughout the supply stream together with more flexibility as to the nature of the product at the point of final usage.

Each of these points represents a differentiation of liquid logistics from logistics techniques used for discrete items. When properly planned for and handled these points of differentiation may lead to business advantages for companies that produce, process, move, or use liquid products.