Chapter 8

MARKETING EFFICIENCY AND THE PRINCIPLE OF POSTPONEMENT*

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Marketing efficiency within a complete system of distribution can be promoted through application of the principle of postponement. Distribution cost analysis has been successfully applied in the past to problems of efficiency for individual marketing units. Less progress has been made in evaluating the efficiency of a complete system or marketing flow such as the movement of a major agricultural crop from grower to consumer.

1. Postponement in Product Differentiation

Changes in form may occur along the way, varying from elaborate fabrication and combination of raw materials to mere cleaning or packaging of a product which is to reach the consumer in essentially the same form as that in which it was produced. Changes in location of inventory occur as the product moves from farm to elevator, to factory, to warehouse, to retail store. Efficiency in the basic marketing processes depends on a proper ordering of these related steps involving changes in form, identity, or place.

The marketing process, like any other process, is extended in time. It can be viewed as a series of steps which need to be arranged in the most effective sequence. The process is marked by a definite direction which can be defined in terms of what is happening to the product along the way. The product starts out as materials which are relatively raw and unspecialized. It ends up as a relatively refined and specialized article, shaped to a type of need and fitted to the specific requirements of the individual consumer who buys it. To serve the individual consumer, the product must assume a special character as to its use qualities; these qualities must be adequately identified in relation to the proposed use; and it must be available at a convenient place when the consumer wants it.

All of these changes in form, identity, and location of the product are bracketed by the economist under the term “product differentiation.” The closer the product is to the point of consumer purchase, the more differentiated it becomes. For many kinds of products the demand of the individual consumer is unique, or nearly so, when all of his special requirements are taken into account — including basic use, special features, color, size, and place of purchase. Mass production is made possible by the vast and intricate system of sorting which lies between the standardized output of farm or factory and the unique requirements of individual consumers.

Sorting as carried on by marketing agencies lays the foundation for mass production but raises its own problems of efficiency. How can the cost of sorting be controlled, so that it will not absorb all the savings in production costs made possible by sorting? One general method which can be applied in promoting the efficiency of a marketing system is the postponement of differentiation. As already stated, the principle of postponement requires that changes in form and identity occur at the latest possible point in the marketing flow; and changes in inventory location occur at the latest possible point in time.

The first aim of postponement is to permit sorting to occur to the greatest possible extent while the product is in a relatively undifferentiated state. Sorting by large lots is less costly per unit of product than sorting in small lots. Grading and refining of a product sets up separate identities which must be recognized in subsequent sorting. Dispersion of supply to a number of places reduces the scale on which sorting can proceed thereafter.

In addition to reducing the cost of sorting, postponement serves to reduce marketing risk. Every differentiation which makes a product more suitable for a specified segment of the market makes it less suitable for other segments. If a pair of shoes is to be purchased by the author of this book, it must be shaped to the size of 8 double E. That differentiation makes the product unsuitable for purchase by the great majority of consumers. It must also be stocked by a store in Philadelphia, which eliminates it from practical consideration by men in San Francisco or New Orleans. To make up shoes to a certain size or last is to assume a marketing risk related to the reliability of the estimate of demand for that size. To take the additional step of shipping the shoes to Philadelphia involves a further risk as to the share of the market represented by this city. Each step in differentiation is taken on the basis of some prediction concerning demand for that differentiation at some future time. Postponement cuts down that risk by moving the differentiation nearer to the time of purchase.

The principle of postponement might be reduced to absurdity by concluding that it pointed to the complete postponement of every step in the process. Thus, materials would be turned over to the consumer in the raw state; and he would be asked to make the best of them. This absurdity is avoided because the product must at least be moved from its original source to the place of purchase,