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CUSTOMER-DRIVEN MARKETS IN SUPPLY AND DISTRIBUTION CHAINS: A NONPROFIT SERVICES MARKETING PERSPECTIVE

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Abstract

This paper focuses on supply-related functions in nontraditional areas, an innovative distribution marketing approach relating to nonprofit service organisations. Whereas most literature, in the past, has focused on the buying and selling of goods and services by commercial and profit-oriented organisations; the current study evaluates the applicability of supply chain concepts, and the resulting facilitation of the supply functions in service organisations, in general, and nonprofit organisations, in particular. As such, the current study attempts to first define supply chains for nonprofit organisations. Secondly, it discusses the degree of facilitation of implementing the supply functions by nonprofit service organisations through the application of integrated supply chains. Finally, this paper presents a case study analysis on the applicability of the integrated supply chain approach at Wesley Disability Support Services, a nonprofit service organisation.

Key words: nonprofit marketing; services marketing; supply chains; distribution channels; case study approach.

Introduction

The effectiveness of supply chains, in both the public and private sectors, has been recognised as a crucial area for organisational success (Quayle, 2003). As a means of exploring customer service, researchers are integrating the traditional operationally oriented logistics studies with services marketing research (Bienstock, 2002). Furthermore, researchers continue to explore with different approaches to integrate the various aspects of process, structure and strategic decision-making in distribution channels and supply chain modelling (Chopra and Meindl, 2004; Christopher, 2005; Li, Kumar and Lim, 2002). The current study adopts the Generic Supply Chain Model (GSCM) (Caddy and Helou, 1999) to evaluate the degree to which nonprofit organisations (NPOs) benefit from the efficient application of supply chain management activities with respect to three main supply chain dimensions/factors, namely: organisation strategy/structure-driven factors; human factors; and information technology-driven factors.

Characteristics of Nonprofit Service Organisations

Anthony and Herzlinger (1977) define nonprofit organisations (NPOs) as ‘those whose objective is to render a service and whose success is measured primarily by the amount and quality of the services they render’ (Anthony and Herzlinger, 1977, p. 7). Researchers agree that the service industry is characterised different from the manufacturing industry as ‘sales are intangible, and depend more on people’s education, experience, and ethics’ (Kathawala and Abdou, 2003). Although service provision, and customer service quality, are considered as a primary objective and a crucial performance indicator for nonprofit organisations, and, as such, NPOs share many characteristics of service organisations; it is worthwhile to note that they have unique characteristics which tend to impact the nature of their supply chains and the associated activities related to the management of their supply and service provision activities.

Kotler and Andreasen (1991) provide a summary of remarks generated by evaluating research studies on the uniqueness of nonprofit marketing undertaken by various researchers (Bloom, 1980;
Bloom and Novelli, 1981; Novelli, 1988; Rothschild, 1979). Among the unique characteristics of nonprofit marketing discussed are the following:

- the secondary data available to NPOs about their clients’ characteristics, profiles, perceptions, needs, and attitudes are usually rather limited when compared to those available to commercial organisations (Kotler and Andreasen, 1991); and

- as some NPOs, such as in the case of Wesley Disability Support Services (WDSS), work in the area of service provision to either physically, intellectually and mentally disabled clients; it is rather difficult, and at times impossible, to secure consistent and reliable first hand primary research data to be utilised in the preparation of future plans (Bloom and Novelli, 1981).

As such, although traditionally NPOs are thought of as followers of a client-oriented supply chain topology, due to the nature of their client base, some NPOs tend to follow a supplier-driven supply topology. Furthermore, primary and secondary research data collection limitations have crucial strategy/structure implications for NPOs.

Due to the nature of the service(s) provided, at times involving a prolonged effort to incur gradual change in consumers’ attitudes and physical behaviours; prolonged service encounters become crucial to the success of service provision. As such, large amounts of information need to be exchanged between the key service provider and the client. Within the context of supply chains and their management, such information exchanges relate to both human relationships and information technology factors. In addition, the mode of communication used to exchange and store the information and knowledge generated in the process is a pertinent factor. Given such unique characteristics, nonprofit organisations need to well evaluate, in advance, the extent to which belonging to an effective supply chain, and the efficient undertaking of the relevant supply management functions, would enhance the production and delivery of the demanded or expected customised client services.

The current research study discusses the results of a series of interventions undertaken with WDSS, a non-profit organisation that provides support services to clients (individuals and groups) that have either physical or mental disabilities, in line with other institutions that also provide similar type of services. Accordingly, a network of disability organisations exists within which WDSS needs to position itself. This network simultaneously serves as a resource base for information, collaboration and assistance. In fact, a considerable number of the WDSS employees have been previously employed by other similar type organisations. As such, they have a great deal of knowledge about the capacities of other organisations within the industry in terms of the delivery of particular services. These networks can, in fact, be considered the equivalent of supplier networks for manufacturing organisations. However, one identifying difference is the greater level of knowledge sharing and low level of competitiveness within these networks.

**Supply and Distribution Marketing: An Integrated Approach**

Several general statements exist in relation to the term ‘supply chain’ and ‘supply chain management’, depending on the nature, content and context of operations and processes considered. The current study adopts Harland’s (1996) view on the four main uses of the term ‘supply chain management’, namely: integration of business functions involved in the flow of materials, information and products within and without the organisation; management of dynamic (or higher order) relationships with suppliers; management of a chain of business including suppliers and their suppliers, and customers and their customers (or even higher degrees of supply chains); and management of a network of interconnected businesses involved in the provision of the product from the producer to the end user.

Even though organisational flows have in the past been emphasised, it is widely recognised nowadays that the firm is simply one player in the supply chain, starting with suppliers, including transporters and distributors, and ending with customers (Sahay, 2003). Based on the findings of previous research by Caddy and Helou (1999), and for simplicity purposes, representative supply chain management frameworks and models have been grouped into three main categories:
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- Organisation strategy structure-driven frameworks/models (Blois, 1972; Cachon, 1999; Hakansson, 1987; Hall, 1999; Handfield and Nichols, 1999; Lowson, 2003; Mitchell, 1969; Moon, 2004; Perry, Sohal and Rumpf, 1999; Richardson, 1972; Rollins, Porter and Little, 2003; Sundaram and Mehta, 2002; Tompkins and Ang, 1999);
- Human factors-driven frameworks/models (Burnell, 1999; Ellinger, Daughterty and Plair, 1999; Hakansson, 1987; Handfield and Nichols, 1999; Harland, 1996; Jenkins and Wright, 1998; Keller, 2002; Korpella and Lehmusvaara, 1999; Mariotti, 1999; McLaughlin, Motwani, Madan and Gunasekaran, 2003; Sahay, 2003); and
- Information technology-driven frameworks/models (Cook, 1999; Gavirneni, Kapuscinski and Tayur, 1999; Golicic, Davis, McCarthy and Mentzer, 2002; Handfield and Nichols, 1999; Harrington, 1999; Hickey, 1999; Hickins, 1999; Kiely, 1998; Kim, Cavusgil and Calantone, 2005; Michel, 1998; Mourits and Evers, 1995; Orenstein, 1999; Singer, 1999; Thomas, 1999; Trunick, 1999; Williams, Esper and Ozmet, 2002).

Although some frameworks relate to a combination of the three previously mentioned dimensions, in most cases, individual factor weights have not been allocated. The Generic Supply Chain Model (1999) (Figure 1) encompasses the three main supply chain dimensions. As such, it has been applied within this research to WDSS to examine the applicability and contributions of the commonly acknowledged supply chain concepts on the supply and service provision functions in nonprofit service organisations.

![Generic Supply Chain Model](image)

Source: Caddy and Helou (1999, p. 120).

Fig. 1. Generic Supply Chain Model

**Applicability of the Generic Supply Chain Model to Nonprofit Service Organisations**

All types of organisations – including government agencies, commercial firms and nonprofit institutions – are represented in every product they produce and customer or client they serve. By the same token, the organisation is represented by each and every one of its employees (Pine II, 1993). The customer undertakes a holistic approach to evaluating organisational performance. The entire company is on the line at each and every activity undertaken throughout the entire production, distribution and post-purchase activities. Accordingly, a holistic and interactive approach, as embedded in the Generic Supply Chain Model, is needed to study the impact of efficiently undertaking the supply chain management functions on the production and delivery of customised goods and services to niche markets for both commercial and nonprofit organisations.
Nonprofit Organisational Strategy/Structure Needs: In terms of structure-driven factors, nonprofit organisations call for dynamic, loose and flexible network of either quality teams or individuals (Pine II, Victor and Boyton, 1993), whereby each module is responsible to achieve a certain task or serve a special and unique client need. Given the nature and the unique properties of nonprofit institutions, especially in terms of the markets and clients they serve, organisational strategy could either be purely customer-driven, supplier-driven or a combination of both. As such, modules – including external suppliers and other support resource organisations within the network – do not usually interact in the same sequence (Pine II, Victor and Boyton, 1993). Accordingly, the combination of the module constituents, including how and when they interact, continuously change as the nature of the customised services produced and delivered change in accordance with the specialised client-driven needs and expectations. It is worth noting though that, just like manufacturing organisations, nonprofit organisations tend to simultaneously maintain two different levels of networks: internal and external. The internal network consists of members from various functional divisions within the organisation who tend to internally cooperate to better serve customised client demands. The external network, representing a valuable support resource base, is regularly called upon when dealing with unique client needs.

Nonprofit Organisational Human Needs/factors: A customer relationship could be described as a cycle extending from mass information – that is, informing a niche market about the existence of a specific good or service, and providing relevant information related to the available options – through to mass customisation – that is, producing and delivering a customised good or service to niche markets. Since nonprofit organisations are considerably client-driven, employees are encouraged to listen to clients’ remarks and expression of needs, and accordingly generate meaningful feedback relating to physical and emotional client requirements. Market research becomes a must to undertake general need assessments to determine preferred and salient client demands. Such need assessments would eventually translate themselves into future service provision areas. As such, undertaking focused market research, to continuously update clients profiles, would aid nonprofit organisations in drafting future expansion and growth strategies.

Just as in profit-oriented organisations, managers operating in nonprofit organisations tend to act as facilitators to better operationalise the process modular network linkages for each and every service provision and delivery cycle in response to clients’ needs. Such a facilitation role is undertaken in an attempt to minimise cost, time and effort allocations. In addition, in nonprofit organisations, there is a need to promote a culture that encourages well qualified and trained volunteers, at all relevant professional levels, to assist full-time staff members in the provision of a wider range of customised client services. A main benefit underlying the use of volunteers is the generation of new and varied service teams that are able to respond to unique client needs. Being a member of an efficient supply chain network and a support resource base provides a nonprofit organisation with a wide and varied supply of professional service providers that would be available to aid the NPO in catering for its clients’ needs by providing time, knowledge and expert advice. The nature of the service encounter in nonprofit organisations, where close relationships need to be regularly maintained between the key workers/service providers and the clients themselves, necessitates the development and maintenance of efficient information systems. In situations where the key worker resigns or gets promoted to a different position within the organisation, relevant clients information and documentation are stored for the new staff member to carry on with client services and follow up with their needs.

Nonprofit Organisational Information Technology Needs/Factors: Just like commercial organisations, NPOs are in need of today’s technologies to deliver quality services to their clients. The thrust of a dynamic supply chain network is an efficient management information system, which allows information to be rapidly channelled throughout the network modules and members. The adoption of an efficient management information system would allow NPOs to enhance communication processes within the organisation itself, and among its network members. Similar to commercial organisations, a crucial feature of an information technology-driven nonprofit service organisation is the need, as well as the ability, to integrate its internal enterprise resource planning system with the relevant supply chain members (Caddy and Helou, 1999). Advances in information technology, such as the emergence of the Internet and the use of e-commerce are well spread in nonprofit organisations.
Such technological advances have significantly contributed to facilitating the creation and delivery of customised services. It has also contributed to the facilitation of the supply functions and the management of supply chain networks. It is such IT advancements that allow for the electronic connection of the nonprofit organisation with its network members and its various markets. This includes suppliers, donors, sponsors, clients, volunteers, professional service providers, and other relevant organisations within the supply chain. Enhancement of communication is especially crucial for rapidly determining ways and means to better meet market and client needs and expectations. Since knowledge resides in different departments, units or even individual staff members; the development of an efficient management information system is especially critical in accessing individuals and teams with specific and expert knowledge to deal with clients’ special needs.

In addition to facilitating the undertaking of strategic interactive marketing activities for the various NPO markets, advancements in information technology aid such service providers in undertaking a proactive reading of the market(s) as a means of deciding on future service demands by both donors and clients alike.

**A Case Study Approach: WDSS**

Can additional similarities in the operations of non-profit organisations be found in the management of their supply chains? The answer to this question is ‘yes’. One crucial feature of a supply chain is determining whether it is either supplier-focused or client-focused. The classic example of the former is the motor vehicle industry to which the customer is essentially anonymous. Motor vehicles are normally wholesaled to car dealerships, who in turn sell to the end-user. Accordingly, a motor vehicle manufacturer will know a lot about their individual suppliers but little about their individual customers. On the other hand, organisations like Readers’ Digest have supply chains that are customer-driven, i.e., designed specifically to meet customers’ needs (Watson, 1999). Readers’ Digest compiles extensive information about individual customers, building elaborate and sophisticated customer profiles from these data, that drive marketing campaigns and day-to-day operations. A significant amount of product innovation at Readers’ Digest occurs through such customer data; while for the motor vehicle manufacturer, a significant amount of innovation is produced in collaboration with their suppliers. Which of these two supply chain topologies fits WDSS best? In fact, even though WDSS does not search for potential clients, it adopts a customer-oriented supply chain topology, which applies to both traditional and new service offerings. WDSS could have a client whose needs the organisation can no longer meet, and, as such, it would attempt to find another service provider who can deliver the customised service needed by the client.

At the beginning of the process of managing a new disable client, WDSS is given information and profiles to assess its capacity to assist the potential client. This information may be obtained from a variety of sources, but WDSS adopts a more reactive, as opposed to a proactive, approach to data gathering. In addition, WDSS’s prime revenue stream is provided through a government tender process. Almost one hundred percent of funding is raised in this fashion. This is a key difference between for-profit and not-for-profit organisations. While in the case of for-profit organisations, suppliers are a source of cost; in the case of not-for-profit organisations, suppliers are a source of revenue. After winning the tender, and, therefore, gaining the necessary funding; WDSS then looks at the provision of services to their new clients. Sometimes clients with special needs already have money allocated to them, but in most situations, service provision occurs after a successful tender bid. In either case, clients can either accept or decline the proposed package of services offered to them. A successful tender generates a long-term revenue stream. As such most funding is treated by WDSS as recurrent, i.e., it is expected that the same level of funding will be made available in the following year. Growth is achieved through the provision of additional services, which, in turn, result in winning additional government tenders. During the tender process, WDSS has a lot of knowledge and information about its supplier and minimal information about its potential customers or clients.

From the previous analysis, it becomes obvious that the strategy and structure dimension of the GSCM is a determining factor for the successful operations at WDSS. In terms of strategy, the organisation develops a plan to manage its suppliers, and usually has considerable understanding
about the probability of success with a particular tender proposal. Government agencies, such as the Department of Community Services, have the funds as well as the client base. It is worthy to note that this client base is by no means exhaustive, and future potential clients of WDSS first have to self-report to the appropriate government agency.

In terms of the human factors related to the service provision to clients, WDSS assesses individual client needs on a case-by-case basis. WDSS discusses with the client, and their advocates (parents or guardians) the client’s needs, support services available and the changes that the support staff seek to achieve. There are often multiple meetings to resolve issues, which again all reflect back to the individual client. Indeed, supply of services is focused around the human factors, to ensure that an adequate level of care is delivered. In accordance with the Disability Services Act, individual service and program plans must be prepared for each person. This is an annual plan that is formally reviewed each quarter. The review is client-focused, considering issues such as the client’s overall short-term and longer-term goals. Clients are assisted in undertaking these need assessments by a 'key worker' allocated to each client in each centre. Organisational procedures are set in place as ‘key personnel’ may get promoted or resign. The principle mechanism is maintenance of an adequate level of documentation on each and every client. Accordingly, the human dimension of the GSCM is pertinent to the service delivery provided by WDSS staff.

Information technology, being the third and final dimension of the GSCM (Caddy and Helou, 1999), is often seen as a fundamental enabler of supply chains. Does WDSS use information technology within its supply chain activities? The simple answer to this question is ‘not yet’. Currently, information about clients is stored in individual paper folders. Each of these folders represents an archive of data for that client, whereby the client has the right to review the information contained in them. They may also have copies of any information they need, but they cannot physically remove the folder from their residence. The folder remains within the centre and is the property of WDSS. Information flows within WDSS occur mainly through verbal communications. Prior to tender application preparation, considerable work occurs within the regional offices that are then communicated to the appropriate government authority. Information technology does not have the same pervasive impact on supply chains in nonprofit service organisations when compared to their counterparts in manufacturing firms. Furthermore, the application of advanced information technology is constrained by budgeting and resource allocation limitations. If sufficient funds were available, pertinent information would then be stored and communicated electronically. Development of efficient information storage and appropriate information flow mechanisms are critical to the effective overall operation of WDSS. Accordingly, there is sufficient evidence for the need of the third dimension of the GSCM, namely information-driven factors, for successful operations at WDSS.

Conclusion and Directions for Future Research

Being a member of an efficient supply chain network facilitates the service provision functions by NPOs. It allows them to better customise their operations; thus, fine tune their service offers to all markets concerned, including both donors and clients. It re-inforces and supports the nonprofit organisation’s need for a flexible network of quality teams and members. In addition, it facilitates the application of the marketing concept to their customised markets and the development, and possible adoption, of relevant and supportive management information systems. In conclusion, to provide a quality service, and to facilitate associated service provision activities, NPOs need to be well linked to an efficient and dynamic supplier networks. In terms of future research, undertaking similar case studies for other NPOs offering similar services as those offered by WDSS would cast further light on the nature of supply chain operations as well as the typologies that best fit with and optimise the provision of the customised service offerings demanded.

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