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# **The Information Explosion: Implications for Physical Product Distribution**

Chairperson: Doug Richardson, American Home Foods Corporation

## **Total System Efficiency**

by

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### **What It is . . .**

It is a modern overall approach to the business whose final objective is lower costs. Lower costs not just for the manufacturer, nor just for the retailer, but throughout the entire distribution system. It covers all aspects of a brand and its costs from the raw materials a manufacturer uses--every step of the way to the consumer leaving your stores and taking the product home to use. It looks, for the first time, at the industry as one total system and recognizes that all costs involved ultimately have to be passed on to consumers.

When we say "total," we mean it. We've put countless little ideas to work that add up to big savings in our own operations. For instance, we've saved about \$1.5 million by developing special hopper cars to transport peanuts in bulk and then offloading them with flexible hoses that pick up the peanuts like a vacuum cleaner. We save \$2 million yearly by redesigning our detergent laundry packages to use less ink, without sacrificing any point-of-sale impact. We cut costs by \$4 million a year simply by utilizing cardboard already in our Pampers package as a sturdy handle,

rather than having to buy and insert plastic handles. There are many more cost-efficient innovations to come--in all areas of our operations.

But most businesses try to be efficient. We all try to do the right things, and do them at the best price to present value to the consumer. At P&G, we felt we were doing a good job of keeping our part of the "system" efficient. But as we listened to our customers, we realized there was more we could do to reduce your handling costs and thus reduce the price consumers pay for our products.

So we set the objective to achieve Total System Efficiency, and in doing so we have developed the following statement of philosophy:

We will support any project that reduces the total cost of the distribution system even if the project increases our own cost.

We will resist any program which increases the cost of the entire system, even if it reduces our own cost.

## How It Works . . .

Costs incurred by you are reflected either in the price to the consumer or your profit--or both. Conversely, any reduction in handling costs we can bring about on our products has a favorable effect on consumer price or your profit--or both. It is clearly in our self interest, at P&G, to be concerned with Total System Efficiency, and we believe it is also in your best interest.

In late 1981, we identified a concept called Direct Product Profitability, or DPP, as a very good way to measure costs and determine profitability. DPP ascertains the specific and precise costs which are incurred in handling each brand. You have been aware that there is a wide variation in your costs from product to product. But it is very difficult, if not impossible, to accurately allocate so many cost factors to arrive at reliable figures.

Not any more! P&G engaged an independent consultant who has been deep into this cost allocation process. A project team created a special program which can be used on a personal computer, including the ability to answer "what if" questions. To determine, for example, effects on handling costs of changes in package configuration, case dimensions, delivery procedures, etc. As a result, DPP can measure productivity on a product-by-product basis. When the computer keeps track of all these cost changes, one can be assured that costs are reduced, not just transferred from one place to another in the system.

As a result, we are modifying our products and packages, our case packs and pallet configurations and a variety of other variables to further enhance the profitability of our brands for you. For example, we have improved cube efficiency on a number of products. By going to a denser formulation with all our powdered laundry detergents, we were able to reduce cube size. Also, our new Downy triple-concentrate improved cube efficiency. We reduced the case-cube of Crisco Oil by redesigning bottles, and Pringle's went from a twin to a more efficient single, super-size canister.

In addition to cube efficiency, we are working in many other areas to help reduce your overall costs and to make the system more efficient. Some of the areas in which we are active include the following:

- Direct Product Profit
- Scanners
- Uniform Communication Standard
- Innovative Packaging
- Computerized Shelf Management
- Customer Pick-up Program

It is evident that the advent of TSE provides a welcome opportunity for the entire industry to work together in partnership as never before. And that's good news for the group we all serve--the public.