

# **Cowboy Economics in the Durable Goods Supply Chain: The Chisholm Trail to Destruction**

**Scott Benfield and Steve Griffith**

*The Authors compare the demise of the cowboy and the cattle drive to the changes in durable goods commodity channels. The cowboy and the rancher and their counterparts in the industrial channel are gone or being flattened for a simple reason; new technologies are replacing old ways for more efficient channels and better economics.*

## **The Cowboy Gets “Flattened”**

Dramatic changes, indeed upheavals, in markets and industries are rarely the result of isolated changes in practices or economics. Almost universally, they are the result of a confluence or “perfect storm” of events that occur, if not simultaneously, then in close temporal juxtaposition. Rarely is any one event enough to cause the cataclysmic changes that occur in industries. Together, they are more than sufficient.

A cherished piece of American history, the fabled cattle drives of the 1800’s offers an interesting insight into this process and, indeed, into the changing “cowboy” economics of today’s durable goods supply chain. The most legendary of the drives, up the Chisholm trail through Central Texas to the railhead at Abilene, Kansas, began in earnest in 1866<sup>i</sup> as cattlemen sought to profit from the higher beef prices available at the slaughterhouses of Omaha and Chicago. Professional drovers, the logistics and distribution experts of the time, would contract with ranchers to drive the cattle to the railhead. A typical drive might include as many as 3,000 head of cattle, 10 to 15 trailhands, a cook, trail boss, chuck wagon and supplies and would require six weeks to complete as the cattle grazed their way north to the railroad<sup>ii</sup>. While highly romanticized, this inward supply chain, as we would call it today, was labor intensive, sometimes dangerous, and conferred little value added to the merchandise, the cattle. Stampedes,

lightning storms, dangerous river crossings all required the TLC of the cowboys replete with whoops, lassos, and cutting horses just to maintain the merchandise in saleable condition. Not surprisingly, this high cost, slow, low valued added supply chain was quick to be eliminated as soon as a better alternative became available. Cattle drives only lasted for some twenty years, fading into history as the railroads pushed into Texas.

Several other events occurred in rapid succession that served to simplify this long distance supply chain and reduce non-value added effort. Communication between vendor and purchaser was greatly enhanced by the telegraph. Western Union's initial transcontinental line was completed in 1861, and telegraph services grew rapidly throughout the country thereafter, boosted in part by the hundreds of miles of telegraph cable strung during the Civil War. By 1966, Western Union had 75,686 miles of wire and operated some 2,250 telegraph offices<sup>iii</sup>. Suddenly, commercial communications between vendor and purchaser were instantaneous. Purchase orders, acknowledgements and receipts could all be exchanged without regard for distance.

Despite the progress in logistics and communication, the supply chain between the ranch and the table still embodied a wealth of inefficiencies. Live cattle were still shipped, albeit by railroad, to slaughterhouses located near the centers of consumption. Railroads maintained a host of facilities intended to care for live cattle as they made their way to the major population centers to be slaughtered, butchered, and consumed. The advent of the refrigerated rail car in about 1870<sup>iv</sup> allowed the meat packing industry to move closer to the original source of supply. Meat packing centers grew in such western locales as Chicago, St. Paul, Omaha, Sioux City, St. Louis, Kansas City, Denver, Oklahoma City, and Fort Worth. Once it became possible to ship refrigerated carcasses

east to the consuming population centers, it was no longer necessary to ship all the non-consumable parts of the cattle on the hoof or to create facilities for the cattle. Once again, non-value added elements of the supply chain had been eliminated and the movement of goods from producer to consumer had been accelerated. This process has continued until, today, some 90 percent of the beef consumed is “boxed beef”, that is, wholesale cuts of beef vacuum packed and refrigerated for transport to the retailer where it is butchered into retail cuts.<sup>v</sup>

The final development in this convergence of events was the implementation of beef grading standards by the USDA in 1925<sup>vi</sup>. With the advent of this system, the chain of long distance supply and purchase of beef products was complete. Wholesalers could order beef and receive acknowledgement of their orders instantaneously via telegraph (and shortly thereafter via telephone), could specify the quality required according to a standardized classification system, and receive the butchered meat quickly via refrigerated shipment. Much of the waste and non-value added activity had been eliminated from the system and the cowboy went the way of the television western. The world of beef distribution, to borrow from Thomas L. Friedman<sup>vii</sup>, got flat. A junction of technological events dramatically reduced the significance of place, time, and distance and allowed vast amounts of waste in the value stream to be eliminated. Sadly, perhaps, a host of jobs dedicated to the movement of live cattle to the point of consumption were eliminated. The cowboy was “outsourced” as railway men, refrigeration technicians, telegraphers, and the like squeezed him out of the value stream.

**Will Members of Durable Goods Channels Go the Way of the Cowboy?**

We would argue that a similar series of events has already made itself felt in the durable goods supply chain and its effects are likely to become more pronounced and, unless managed effectively, more threatening to existing members of the durable goods channel. Your world is rapidly flattening, non-value added parts of the value stream are being mercilessly eliminated, and the challenge is to find a position in this value stream where you can add demonstrable value that customers will purchase.

Friedman tells us that the modern confluence of technological events includes the development and introduction of personal computers, the introduction of Microsoft Windows® graphically based software which greatly enhanced the interface between computers and the people who use them, the Internet, the World Wide Web and, lastly, easy to use, universal browsing software such as Internet Explorer. With these tools, we can communicate instantly and cheaply and, more importantly, view images of and purchase goods and services from anywhere in the world. Perhaps, most importantly for all channel members, customers now have perfect price information. Your customers can instantly compare your prices with hundreds of other potential suppliers around the world. When the goods in question are commodities, governed by industry-accepted standards, the risk to the purchaser is relatively small. For an interesting example, one need only enter the phrase “pipe fittings” into the Google search engine or go directly to <http://www.pipefittings.net/>. This last site features prominently displayed prices for these standardized items and, as is typical, quotes lead-time and shipping cost by the selected shipping method as part of the ordering process. This is a flat supply chain at its best. No amount of bundling, non-competitive value added services or other accoutrements will add enough value to permit a manufacturer or distributor to compete on anything but

price for this business. Cost is King here and success will only come to those who search out and remove every ounce of waste and excess. This commoditized, flat business should be run as a separate entity, immune from corporate overhead, allocated costs that add no value to the business, and traditional value added niceties. Excessive advertising, sales promotion or questionable wrap around services that are bundled into the product price won't last. If you want to see if customers really value the wrap around services, separate them and fee base them in cafeteria style offering. You can't use a lot of incentives or excess servicing and bundled pricing to sell commodities.

Looking further upstream to manufacturing, we can see the same flattening occurring and driving out additional waste in the supply chain. Check out: [http://www.alibaba.com/trade/servlet/page/help/new\\_member/what\\_is\\_alibaba](http://www.alibaba.com/trade/servlet/page/help/new_member/what_is_alibaba) for an example of just how easy it is to find low cost suppliers of standardized components. One member of this trading alliance, China Shanxi Taigu County Jingu Carbon And Cast Co., Ltd., offers a variety of malleable iron fittings. Their site [http://jingufba.en.alibaba.com/product/50139957/51195701/Pipe\\_Fittings/NPT\\_Malleable\\_Iron\\_Pipe\\_Fittings.html](http://jingufba.en.alibaba.com/product/50139957/51195701/Pipe_Fittings/NPT_Malleable_Iron_Pipe_Fittings.html) goes to great pains to highlight conformance to ASTM, ASME and ANSI standards and includes a convincing streaming video highlighting their production and technical capabilities. Once again, we see that issues of time, place and distance have been largely removed from consideration and any costs related to excessive TLC have been relegated to the same fate as the cowboy. You order the items, pay for them and get them. You don't get manufacturer's reps, OEM promotional efforts, OEM reps, and, most of all, you don't get a higher priced branded product with no additional

value. And, like the telegraph and telephone of the livestock channel, the internet and e-commerce allows the buyer to shop the world from their desktop at light-speed.

### **Power Shift in the Channel From Rancher to Processor to Distributor**

In the beginning of the livestock supply chains, there were two types of producers: Rancher and Free Grazers. Ranchers owned land and raised their livestock on it. Free grazers, as the name implied, let their livestock graze, unimpeded, over the available land. Ranchers and free grazers were akin to modern day manufacturers who controlled the power in the beginning of the industry. Without product, the rest of the channel mattered little and there were noteworthy “spreads” including the Muleshoe and Reynolds Cattle Company (Long X Brand). In many instances, the name of a ranch could fetch a higher price for the beef because of a quality reputation. The same was true for industrial manufacturers of 100 years ago. Those first to market dominance created strong brands that were sought out and promoted by distribution.

By the 1880’s, the free grazer was on hard times. Barbed Wire, patented in 1874 by Joseph Glidden of DeKalb, Ill., allowed ranchers to economically fence in their livestock and protect their land from free grazers.<sup>viii</sup> With Barbed Wire, ranchers became more efficient. They increased production, reduced loss of inventory, and developed fixed facilities for ranch hands. In essence, the rancher standardized plant and labor to ensure quality and get the cost out; lessons that were repeated many years later in manufacturing. Once the railhead moved from Abilene to Dallas, however, several unexpected events occurred. First, the herders or cowhands reduced in number and fairly rapidly. Cowboys on the trail decreased until, by the early decades of the 20<sup>th</sup>. Century,

you had a better chance of finding them on the back lots of Hollywood than the trails of Texas. They were reduced to singing campfire songs for a living. Secondly, the powerful ranch names began to lose prominence. Ranches and powerful ranchers became commodity producers. Agricultural science, the transportation and storage of grain, and automated livestock feeding facilities allowed the ranch to be moved close in to the major population centers until the old style ranch could only make a living as a respite for city slickers or “dudes.”

Like the ranchers of old, the durable goods manufacturer and their powerful brands are becoming commodity producers and the brand has less and less prominence in the minds of distributors and end users.<sup>ix</sup> Factory salesmen and manufacturers reps, are no longer drovers of the vaunted brand. There are simply less of them needed to get the product to market.<sup>x</sup> And, finally, the domestic manufacturer will be forced to compete on a world-wide cost competitive platform to maintain their market position. And, cost is a cruel task master that will squeeze out all non-competitive costs including even excessive executive pay, corporate perks, and domestic research and development costs from stateside engineers who cost 40% to 60% more than their foreign counterparts.<sup>xi</sup> In the livestock chain, the processors and distributors (grocery merchants) eventually dominated the power in the channel. Names such as Armour, Hormel, and Smithfield became recognizable along with Kroger, Winn-Dixie, and Publix. And, today, the durable goods distributor stands to inherit the power in the channel. Private labeling, store brands, and sourcing direct from overseas commodity producers are an increasing part of the distribution landscape.<sup>xii</sup> Whether or not distributors recognize this shift in

power and capitalize on it or, are oblivious to it and squander it, is unknown. The power shift is happening, however, and will be a dominating story for the next decade.

### **Redesigning the Business to Obsolete the Cowboy or Big Hat, No Cattle**

The Cowboy Culture was romanticized first in the dime store novels of the late 19<sup>th</sup> century and later, in the early years of Hollywood until the 1960's when the Western began to disappear as genre. In a similar sense, the obsolete functions of the industrial channel will fade from memory. Those managers and execs who cling to the days of spurs and "hell-bent for leather" selling and promoting will take their dwindling firms into the waning sunset with their careers.

Durable goods channel members will have to make fundamental changes in their business to adapt to this flat world of commerce. First, we suggest you identify all the commodity items you handle and treat them, as much as possible, as a separate business complete with an individual profit and loss statement. Seek out the lowest cost sources of supply that will provide an acceptable quality product and determine the acquisition costs. Determine the market price for which you can sell the items. The difference is what you have left to spend on administration, overhead and profit. Some functions are, however, more vulnerable than others and we finish this paper with a look at what will and won't work in the future.

### **Selling and Sales Support**

Most durable goods are commodity products. As such, they are well-known, seldom change, and have a market price. Surveys on the value of the outside and inside sales force suggest that most buyers are willing to forego the sales effort for an easy to use e-commerce site or a catalog and fax.<sup>xiii</sup> The trimming of manufacturer sales forces and

consolidation of industry “reps” and agents representing manufacturers has been underway. There is an excess of sales reps in many wholesale channels and we expect this to be corrected in the next decade. The geographically placed outside seller will be reduced and outside sellers will be used judiciously in differing roles to enhance productivity. The overall prognosis for selling and sales support is a continuing decline in outside sales and an increase in the use of less costly methods of both active and passive solicitation. Telesales, differing models of inside sales, catalog and fax, and e-commerce are expected to see increased usage. Herding the products through the channel with too many cowhands is largely obsolete.

### **Sales Promotion**

The field of sales promotion or using incentives to induce trial will fade. Industrial buyers of commodity products aren't swayed by special pricing promotions or give-aways or incentives. Most will expect everyday low price and a competitive level of service. Many manufacturers, co-operatives and some distributors still spend hefty sums on sales promotion and co-op budgets. Only when the promotion supports a new product or service or fills a unique need will it be warranted. Finally, the endless trade shows and conventions where channel members hawk and haggle over commodity wares are fading. The vast majority of these expenditures will, for forward looking managers, go the way of beads and firewater for the natives. You can't bribe them with trinkets when they own the casinos.

### **In House Manufacturing and Absorption Costing**

The use of absorption costing and contribution analysis is misleading and you should, if at all possible, separate the business from your traditional lines to avoid this overhead

absorption question. It is a largely academic question in any case. The availability of supply, continuing manufacturing productivity increases, and world-wide sourcing means that the lowest cost producer wins. If you have a product line, in house, with great contribution margins but it is not competitive on the world stage, expect your sales to dwindle along with your profits. The market doesn't care about excessive overhead and your internal costs. The rancher who can't produce at the lowest cost, should outsource. If he refuses to outsource, he should tear down the barn, put in a spa, and get dudes from the city to experience ranch life at \$2500 a week.

### **Excessive Executive and Managerial Pay**

A recent study of U.S. Executive pay finds that the top CEO's earn a whopping 475 times the average factory worker pay. This ratio in other western economies is 13:1 to 24:1.<sup>xiv</sup> Lumping excessive executive pay and excessive executives on top of commodity products won't work. The market will pay for competitive salaries and needed positions. All else is fat and will need to be trimmed. R&D efforts also, will be outsourced if they are not competitive. Engineering costs in the U.S. are prohibitive and expect that more product development and testing will be done in China and India. Finally, don't add excessive costs in the way of corporate overhead including monumental corporate offices, corporate jets, and country club memberships. If the expenditure doesn't have anything to do with the operational needs of the business, don't spend it as it can't be supported in a flat world. Ben Cartwright and the boys won't live in a Bonanza world very long, especially if Hoss wants a 24 oz. T-Bone every night.

### **Channel Management and Partnering**

Marketing Channel literature is chock full of how to “turn distributors into partners.” The discipline of building partnerships and maintaining them applies to complex products with high service needs and technical application(s). Down and dirty commodities don’t need full blown partner relationships and their accoutrements. Complex distribution agreements, area of primary responsibility designations, and keeping track of who buys and sells what is a waste of time in the commodities world. The best partnerships and partners have reasonable support services at a consistently low price at the least amount of administrative hassle. Even back end volume rebates, the ante for many distributors’ warehouses, won’t overcome a non-competitive offering. The Roy Rogers “pardner” concept replete with Dale, Roy, a ranch visit and a horseback serenade is not needed. The complex, fully supported, and highly interactive relationship, for the commodity buyer is, along with a stuffed and glass-eyed Trigger, a museum piece.

### **E-Commerce That’s Simple and Easy to Use**

The vast majority of transactions will be done via electronic medium of e-commerce or EDI. The more simple and accurate the transactional engines, the better. Buyers don’t have a lot of time to do anything but get a replenishment order. Status of prior orders and returns helps as does payment and order history. But, keeping the functionality simple is the best bet. The desire of the I/T department to add excessive bells and whistles on the e-commerce site should be avoided. When it comes to product content, distributors will largely have to create their own. And, to drive traffic to the site, it’s not a bad idea to give a discount for e-commerce ordering. Haggling over price after driving the cattle to market is gone. The customer can check, well in advance of ordering, the world-wide price and availability 24/7 and 365.

## **Master Distributors and Fill Rate Economics<sup>xv</sup>**

As foreign suppliers seek entry into the U.S. economy, they will need a place for storage, breaking of bulk, and shipping to the distributor branch. Larger distributors have internal master distribution operations. Smaller distributors and smaller manufacturers are left out of the equation. Global sourcing master distributors who can fill a truck and run it daily are expected to take up the slack. In some instances, manufacturers and distributors will collaborate on a joint distribution strategy as some major players have in the Power Transmission industry. Storing the cattle at the ranch and driving them to the railhead is inefficient. It's much easier to put cattle and other livestock in well lit barns, close to the rendering operation, and next to the big city where they can be processed one day, and in the aisles as prime cuts the next.

## **Simplify the Design and Reduce Redundant Products**

Simplified, truncated product lines and vendor reduction keeps costs down and mistakes to a minimum. If you have products that don't sell much, don't sell them. Cut the products out and their production and storage facilities. The tried and true strategy of pumping up the parts price to cover the loss leader items won't work either. There are plenty of low cost sources who specialize in parts. Wholesalers with redundant lines of commodities need to get the world down to two reliable suppliers and work with at least one on streamlining ordering processes and communications. Brand is a slight advantage, only if you have a quality product and competitive price. Wherever you can, simplify product platforms, make standardized parts, and work down product complexity. The world doesn't care all that much if the breed is Angus, Texas Longhorn, Hereford, or Charolais. They want steak.

## A Synopsis and Adios

What works and won't work in the Flat World are listed in the table below. Study on the issues is suggested and if you are doing ranch hand work in the flat environment then don't be surprised when the customer ceases a decades old relationship overnight. Your protestations won't help get the business back. The flat customer simply thinks you pulled up lame and they pulled out the .45 and put you out of misery. In the Flat World, relationships put more value on service and collaboration to get channel costs down than product. Even services, however, have their limits and the excessive bundling of services to hide product costs won't work. Flat members can shop service costs too, 24/7 and 365. Nothing beats a quality product, at a great price, with consistent, simple and trouble free service.

What Will and Won't Work in the Flat Channel			
Function	Thumbs Up	Thumbs Down	Comments and Observations
Outside Sales		x	Specialized sales functions including Consultative and Enterprise models. Reduction in most others.
Inside Sales	x		Use of customer service reps and some inside technical reps to give application support
E-Commerce, EDI, Catalog and Fax	x		Keep it simple with good content and offer a small price concession to induce trial.
Sales Promotion		x	Only when it is a complex technology with a high service component, new product or new market is it warranted. Co-op funds for commodities is an oxymoron.
In House Manufacturing	1/2 x*	x	Existing culture of high paid execs and r&d is prohibitive. Conventions of absorption costing are misleading.
Channel Partnering		x	Excessive for commodities. Trade shows and complex relationships with lots of reporting and interaction aren't necessary.
Master Distribution and Fill Rate Economics	x		Storage and break bulk facilities near major ports are on the rise as are independent master distributors with continuous replenishment.
Product Development	1/2 x	x	Good only for new technologies or mature technologies where new materials and functionality are needed. Loss leader strategies and endless line extensions with flagging sales won't work.

\*x>1/2x by 1/2.

**Scott Benfield** is a consultant for industrial manufacturers and distributors. He is a 25-year veteran of industrial markets with managerial and executive experience with Fortune rated manufacturers and distributors. He is the author of four books on channel marketing and they can be found at [nawpubs.org](http://nawpubs.org). He can be reached at (630)-428-9311 or through his website at [benfieldconsulting.com](http://benfieldconsulting.com).

**Steve Griffith** is a consultant and Adjunct Faculty Member at Indiana Wesleyan University where he teaches graduate business courses. He is also pursuing a doctorate in Organizational Leadership and Change Management. He is a three-decade veteran of industrial manufacturing and channel marketing holding a number of executive posts in Fortune rated companies during his career. He can be reached at (937)-573-9376 or through his website at [merrimontgroup.com](http://merrimontgroup.com).

---

<sup>i</sup> Ramos, M.G. 1990, *Texas Almanac*

<http://www.texasalmanac.com/history/highlights/cattle/>

<sup>ii</sup> Skaggs, J. *The Handbook of Texas Online* University of Texas at Austin

<http://www.tsha.utexas.edu/handbook/online/articles/CC/ayc1.html>

<sup>iii</sup> Cornell, W., Glover, J., 1941, *The Development of American Industries, Their Economic Significance* Prentice Hall, New York

<sup>iv</sup> Cornell and Glover

<sup>v</sup> Epley, R. University of Minnesota Extension

<http://www.extension.umn.edu/distribution/nutrition/DJ5968.html>

<sup>vi</sup> Harris, J., Cross, H., and Savell, J *History of Meat Grading in the United States* Texas A&M University; <http://meat.tamu.edu/history.html>

<sup>vii</sup> Friedman, T. (2005). *The world is flat: A brief history of the twenty-first century*. New York: Farrar, Straus and Giroux.

<sup>viii</sup> Bellis, Mary, *The History of Barbed Wire*, About: Inventors at [Inventorsabout.com](http://inventorsabout.com).

<sup>ix</sup> Benfield, Scott, 2003, *The China Syndrome*, Progressive Distributor Research.

<sup>x</sup> Benfield, Scott, 2006, *Power Shift in the Channel*, Progressive Distributor Online Exclusives, keyword=Benfield.

---

<sup>xi</sup> Kendrick, Carol, 2006, *Outsourcing: The Cause of Lower Salaries for U.S. Engineers?*, The Outsourcing Weblog.

<sup>xii</sup> Fein, Adam, 2007, *Facing the Forces of Change: Major Trends, Private Label Products*, NAW Publications at nawpubs.org.

<sup>xiii</sup> Benfield, Scott and Vurva, Rich, 2001, 2004. *Valuing the Sales Effort, Parts 1 and 2*, progressive distributor.com, keyword=Benfield.

<sup>xiv</sup> Judt, Tony, 2005, *Europe vs. America*, The NY Review of Books, nybooks.com/articles/1776

<sup>xv</sup> Merrifield, Bruce, 2004-2006, *Fill Rate Economics in Wholesale Distribution*, Articles 2.22-2.25 at merrifieldconsulting.com.