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DISTRIBUTION CHANNELS AS A TOOL
OF MARKETING POLICY

1. SOCIO-ECONOMIC SENSE OF DISTRIBUTION

In minds of many decision-makers representing various levels of management there is still deeply inrooted a conviction that the most important thing is to produce a product. The very manner of translocation of the product to the end user as well as the time and place of this operation are of secondary importance in their opinion. This conviction has been accompanied for many years by a view that one of basic principles of the socialist trade should be possibly the lowest costs of its functioning as only then it can be effective.

The economic practice provides best evidence testifying to the fact how much simplified and even socially harmful such views can be. They account for a mechanistic approach to the whole complex distribution process and recognition of a fundamental requirement that this process should be organized in such a way that it can best serve, first of all, the buyer — promoting his satisfaction with consumption.

The distribution system constitutes a basic ingredient of the marketing process. Almost all utilities appearing in this process are, to a smaller or bigger degree, implemented by the distribution system. It is exactly this which testifies to the big importance of this system. The set of utilities created in the marketing process can be expressed by the following equation:

$$\begin{array}{ccccccc} \text{Sum of} & & \text{Form} & & \text{Time} & & \text{Place} & & \text{Possession} \\ \text{utilities} & = & \text{utility} & + & \text{utility} & + & \text{utility} & + & \text{utility} \end{array}$$

Form utility is primarily created by activities undertaken in production sphere and also, although to a smaller degree, in the marketing process. Production is concentrated on technological and technical

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aspects of the manufacturing process (how to produce, what techniques of production to use). The task of marketing, on the other hand, is to determine what products (services) to produce (what to produce and in what quantities) on the basis of thorough analysis of market requirements. To perform actions of this type it is necessary to manipulate actively creation of the form utility i.e. to mould producers' decisions — what they should produce and in what quantities. The distribution system may render invaluable services in the field of creating the utility of form as it maintains direct and permanent contacts with end users. Owing to that it can recognize their needs, preferences and responses to offered products (services).

Accordingly, the role of distribution should not be restricted to translocation of goods from production to consumption sphere, as such treatment of distribution functions would almost exclusively boil down to technical aspects.

In as much as in the case of the form utility the distribution system should participate in its creation jointly with production so in the case of remaining utilities it operates alone as they constitute a main domain of its activity. It is not enough to produce even the best product. By creating the time utility and place utility the distribution system paves the way for socio-economic rationalization of the marketing process. A system, in which buyers wishing to satisfy their needs would have to travel around the country visiting different plants in order to purchase necessary goods, would be very ineffective. On the other hand, it would be irrational to practice sales of all products (services) on buyers premises. Both solutions would lead to a big waste. That is why suppliers wishing to contact buyers open a network of outlets in their places of dwelling. In this way a physical distance between sellers and buyers becomes shorter while simultaneously the buyer saves time required for buying goods or services.

Finally, an important task of the distribution system is to transfer the title of possession (utilization) of a product. This may be done through the buying-selling act or in another way (e.g. renting, leasing). The so-called possession utility involves still other important ingredients. Its extremely important component is creation of buyers satisfaction with possessed products. That is largely determined by favourable conditions of utilizing the purchased goods created by the distribution system. Hence, tasks of the distribution system should not end with passing the ownership title. It must provide such services as giving a guarantee, supplying a purchased product to buyer's premises, its installation, maintenance, repairs, supply of spare parts etc. Provision of these services is an indispensable condition of buyers satisfac-

tion with purchased goods. It also consolidates a good image of the company among the society and represents one of essential factors determining repeated purchases of a given product.

Creating the above mentioned utilities the distribution system removes or at least cushions conflicts or, in other words, disproportions between supply of goods or services offered by producers and demand represented by buyers. These conflicts are a result of divergences appearing between preferences of end users and producers.

The so-called assortment conflict is most important here. Consumers want to buy a wide assortment of products at proper time and place. Thus they would like to have most products offered for sale at one place. Such a range of goods cannot, however, be turned out by one producer, as producers striving for a high profitability of their production must specialize in turning out definite products for definite market segments (groups of buyers). They are, moreover, interested in producing long series of goods and big quantities.

The second type of conflict is represented by quantitative conflict. It is caused by differences between quantities of goods offered by producers (big lots) and quantities purchased by consumers (small lots).

There is often present a time conflict. It is caused by the fact that production and purchase periods do not overlap one another. It is especially acute when production e.g. agricultural production is of seasonal character while demand is of continuous character, or in the reverse order — when demand is of seasonal character while production is carried on throughout the whole year (e.g. production of skis).

These conflicts are gradually diminished by the distribution system along with a passage of the product through consecutive links from places of production to end users. In this way, e.g. organizations of wholesale trade possess a much wider assortment of products than each producer supplying them. Retailers have at their disposal an even wider assortment. By performing storage functions distribution can also mitigate or even eliminate time disproportions. Through the so-called commercial grading it adapts the quantities supplied by producers to requirements of end users.

2. CONCEPT OF DISTRIBUTION CHANNEL AND ITS ROLE

It can be seen from the above remarks that the distribution system should perform a number of functions which are important from socio-economic point of view. Accomplishment of these functions involves

transformation of numerous material and information flows. These flows are effected by means of distribution channels also called market channels. The distribution channel concept is defined in different ways according to the starting point whether it be a traditional or modern concept.

In the first case a distribution channel is understood in the sense of the internal structure of a company and external institutions with the help of which goods or services are translocated from their places of production to consumption. Attention is paid here to physical flow of goods and transfer of ownership title accompanying it. Actually the distribution channel concept is synonymous here with the concept of goods flow. In this sense, the whole distribution channel is composed of many buying-selling acts accompanying a product starting with the moment it is sold by the producer to the moment it is purchased by the consumer (end user).

Such interpretation of a distribution channel allows to explain some of its aspects and follow a physical flow of the product as well as a transfer of the ownership title. This interpretation is characterized, however, with some shortcomings since many spheres of activity — essential from the point of view of the marketing process — are not included in the scope of this concept. It encompasses only different types of commercial middlemen operating between the producer and end users of the product while there are forgotten other institutions (transport and financial organizations, market analysis agencies, advertising agencies, insurance companies etc.) participating in the distribution system. Participation of these institutions in marketing activities is indispensable almost in every case. Bypassing all these non-trade institutions, typical for the traditional concept, narrows the field of observation. Whenever in analysis of a distribution channel there are taken into consideration transfer of the ownership title and physical flow of goods accompanying it, then there pass unnoticed many complicated operations determining the scope of marketing activity or — to be more precise — distribution activity. This obviously produces negative effects in decision-making sphere as it becomes impossible in such a case to perform a proper assessment of the range of activities carried out by a given distribution channel.

The traditional concept bypasses also manufacturers of production raw materials as all diagrams illustrating distribution channels start with a producer of the end product. After all, it is known that many marketing activities are carried out earlier i.e. before the producer turns out the end product. In these activities participate many institutions and it would be impossible to develop marketing activity connec-

ted with a definite product if this activity was not applied first in relation to raw materials. Understood in this way the producer of raw materials constitutes one of links in a distribution channel.

In the light of the above analysis we can say that all economic units participating directly or indirectly in marketing activities establish a distribution channel. Bypassing them leads to decrease of cognitive and practical utility of marketing channel analysis.

In the modern concept a distribution channel (chain) is understood to be a set of consecutive links (institutions or persons) through the mediation of which is effected a passage of one or more flows connected with marketing activity. These flows include physical translocation of products, transfer of ownership or utilization rights, transmission of information to the market, ordering of products, remitting money due, risk taking, trade negotiations, gathering of information about the market. These flows may be analyzed in vertical cross-section (e.g. from a producer of raw materials to end user of a product). We can then observe the direction taken by these flows. Such flows as physical translocation, transfer of ownership title, promotion pass from the producer (manufacturer of a raw material) to end user. Flows connected with ordering a product, remitting money due, information about requirements of buyers take a reverse direction i.e. from buyer to producer. Remaining flows accompanying trade negotiations, risk taking and financing marketing activity can take both directions depending upon definite situations which include also trade customs (e.g. producer may support financially trade companies but the situation may be reversed).

Analysis of a distribution channel in vertical cross-section makes it possible to trace the passage of all flows through particular links of the channel. However, in this case we can take into consideration only one institution in each intermediate link (one producer, retailer, transport company etc.). As a rule there operate many institutions at each level, that is many wholesale, retail, transport companies etc., and not only one organization, and — therefore — it becomes also necessary to analyze a distribution channel in horizontal cross-section. Although this time we can analyze only one separate flow, still we can determine the actual number of institutions participating in the distribution process in particular links (the number of wholesalers, retailers, transport companies etc.).

These two approaches to a distribution channel — vertical and horizontal are not only useful for assessment of distribution channels functioning but they are also of primary importance in making decisions connected with creation of definite types of channels. Thus di-

tribution channels represent an important instrument of marketing although their effectiveness depends on fulfilment of many requirements.

3. REQUIREMENTS POSED BEFORE DISTRIBUTION CHANNELS

Distribution channels should be, first of all, treated as a tool integrating particular links (spheres) of the marketing system — production, distribution (goods turnover), and consumption spheres. It is by means of distribution channels that material and information flows between these spheres are effected. We are dealing here with an appropriate network of feedbacks. Effectiveness of the marketing system is determined by efficient organization of ties between material and information flows.

This whole system of ties is simultaneously of complementary character. Activities performed within the sphere of realization are complementary in relation to those performed in production. Therefore, it is not enough to produce a product but there must be ensured such conditions for it that it can be passed to buyers at proper time and place as otherwise, as we have already pointed out, the marketing system becomes ineffective producing definite losses on the social scale.

It is also erroneous to think that effective functioning of the distribution sphere depends solely on solutions adopted within this sphere. Decisions made in production are of essential importance for effective functioning of the distribution sphere. The point here is not only an appropriate quantity and structure of goods supply but also their appropriate preparation for sale (services, unit packaging, information about utility values of products, promotion etc.) Effectiveness of the realization process depends on the way goods have been prepared for trade.

Complementary nature of particular spheres of the marketing system generates a need for rational allocation of outlays between them as well as between particular links (levels) of distribution channels. Decrease of outlays on the realization sphere must bring about some dislocations in the marketing system and also increase of social costs.

It should simultaneously be remembered that between marketing activities within the above mentioned spheres occur, to some extent, substitution relations. If e.g. consumers purchase goods in bigger quantities then they take over a part of functions connected with storage of stocks. This leads to decreased frequency of purchases in trade network while simultaneously it decreases its load.

The substitution ties occur also between production and distribu-

tion sphere. It appears e.g. that a change in product technology (introduction of bread remaining fresh over longer time) largely facilitates the selling process, and first of all, it eliminates return of stale bread and decreases costs accompanying it. In other words, a change in technology produces bigger effects than e.g. improvement in a system of deliveries.

Existence of complementary and especially substitution ties is of extremely great importance for improving effectiveness of distribution channels. In practice it implies that if there appear bottlenecks in any links it is not always necessary to undertake remedial actions in this and not another link. Such bottlenecks, as in the case of the bread, can be removed by introduction of changes in other spheres.

In order to obtain advantages created by the phenomenon of complementarity and substitution it is necessary to integrate marketing activities of particular links in a distribution channel, or more precisely — of producer of raw materials and end products, middlemen, and other organizations participating in the marketing process in a given market.

Such integration is easiest if the producer has at his disposal his own network of outlets and reaches the end user with his products. This solution may, however, represent only one out of many variants of distribution channels organization. In most cases the producer relies on external institutions (independent organizations of wholesale, retailing, transport etc.), and then obviously his influence on these institutions is much smaller. It is more difficult then to integrate activities between distribution channel links. This situation does not release him from a necessity of performing integration of activities as each unit carrying out activities connected with distribution, regardless of its organizational affiliation, represents an extension of internal organization of the industrial company.

Acceptance of this assumption is a logical consequence of a thesis that the producer's responsibility is not limited only to production of a product even though producers in our country very often perceive their role in this way. That is, however, a pathological situation. The ultimate testing ground for utility of a product (service) is the market. The producer, who is not taking any interest in the fate of his products the moment they have left the production plant, does not perform properly his role in the whole marketing process. He applies a typical production orientation (production for the sake of production) and not market orientation. There are many reasons accounting for this situation. First of all, it results from monopoly of production, insufficient supply of goods, lack of adequate incentives etc. Producers also often forget

that realization (sale) of a product does not depend entirely on its utility values but also on creation of proper conditions of distribution, combination of their efforts with those of remaining economic units operating within a distribution channel.

It would be advisable for one of participants in a given distribution channel to perform a role of the integrator (leader). For many reasons it would be desirable for this function to be performed by the producer as in this way he can ensure a close contact with end users of his products, control all stages connected with product translocation in time and space, and most essentially — he can manage the marketing activity in a way allowing all channel participants to derive benefits resulting from the analyzed complementary and substitution ties. This, however, does not imply that such function should be always performed by the producer. In some situations (e.g. due to weakening of monopolistic situation of the producer) it would be desirable for the integration function to be performed by a trade company. The problem of who should play the role of the integrator in a given distribution channel should not be decided on the basis of administrative decisions but through voluntary agreement of particular participants within a given distribution channel. On the other hand, the organs of market policy should control these matters so that integration is not developed in a wrong direction, and thus in a direction incompatible with the buyer's interest and social preferences. It is not so much a matter of organizational (capital) integration but — first of all — of functional integration between individual participants of a distribution channel. Integration should bring closer all participants, and especially the producer to the market or strictly speaking — to end users. At present, he is in most cases separated from the end user.

This separation is a consequence of introduction of uniform organizational market structures. Industrial companies are to produce, trade companies — to sell the output of industrial companies. Solutions of this type create a situation of production monopoly and of selling monopoly. Specialization is obviously recommended but it should not constitute the only variant as negative effects are revealed then. This monopoly is further deepened by additional factors. The point is that within the framework of these two mutually independent organizational systems (industry and trade) there are established large companies (organizations) possessing exclusive rights in the field of producing or selling a given product. A basic prerequisite of such solutions is a desire to benefit from effects of large scale production or sales. That is but one point of view which anyway cannot promote rational solutions. It treats the problem of effectiveness in a too narrow way. Such so-

lutions correspond with conditions created by central distribution of goods but they cannot meet the requirements of modern marketing. They do not take into account social costs which probably exceed effects produced by big scale. Further organizational changes seem to be consolidating the monopoly situation which can best be seen in the sphere of marketing. For a number of years there existed, although to a limited extent, competition between organizations grouped within the „Społem” chain and state trade companies. At present the „Społem” chain controls almost completely the foodstuff market in town while state trade companies control trade in other articles, each of these vertical systems possesses its own sphere of interests, in which it holds a position of a monopolist.

It is quite interesting to note that although we do not approve of the trend towards monopolization of trade in capitalist countries, we treat its consolidation in socialist economy as a normal phenomenon — as if it were without any significance for its functioning. The socialist state should promote healthy rivalry between economic units as without it no progress is possible.

B.U.L.

When constructing distribution channels, which means their structure, number of organizations participating in the marketing process at all levels of a given channel it is necessary to take into account the social costs. These costs include both all costs connected with the marketing process, which are registered in economic records (marketing costs at the level of production, goods turnover, and after-sale services) and additional costs incurred by the buyer and the national economy as a result of time-consuming queuing, delays in execution of orders, breaks in production due to delayed deliveries, lack of proper goods, shopping done during working hours etc. It is difficult to estimate precisely all these additional costs especially if they are incurred by individual buyers. Nonetheless, they should not be omitted from the calculus of social costs.

High level of additional costs leads to socially unfounded allocation of time and resources which can be more rationally utilized for other purposes. Apart from that, such situation causes dissatisfaction, frustration, and other negative phenomena creating a barrier for further improvement of labour productivity in many sectors of the national economy. Between the first group of costs (registered) and additional costs there probably takes place a negative correlation i.e. too low marketing costs, due to underdevelopment of market functions, lead to increase in additional costs. In other words, economies effected in the marketing process lead to increase in social costs. Unfortunately this obvious truth is not respected.

Finally, one of basic requirements posed by organization of distribution channels is to make provisions for all social preferences and individual preferences of particular groups of buyers (market segments) compatible with social preferences. It especially refers to location of retail network. Location of retail outlets is often based on criteria falling wide of real needs (preferences) of buyers or social preferences. Decisions concerning opening of new stores are not preceded by analysis of preferences of prospective buyers (after all there is no need for it since decision-makers need not consult their opinions knowing best themselves how to spend social money). Experience of many countries could prove to be of great interest here. In places where common sense dictates to organize shopping centres, there are opened offices the activity of which has little in common with marketing.

As it was already mentioned, location of retail outlets and their number are often not corresponding to social preferences. There are quite common instances that e.g. in the close vicinity (200 to 300 mts) there are several liquor stores and simultaneously no stores selling other articles (e.g. mineral water, soda water etc.). Needless to say, such convenience in buying alcohol promotes and not hampers its increased consumption. There was a time when selling of alcohol was prohibited on Sundays. Today many grocer's stores open on Sundays sell alcoholic drinks. It is in this field that it would be desirable for social reasons to make purchase of alcohol difficult, ask people to queue. In other words, distribution channels should be treated as instruments of conscious and socially rational formation of consumption. But to effect this it would be necessary for experts to participate in making marketing decisions.

It is often forgotten that location of goods is a key problem in the field of location, its derivative is location of a definite selling point. Unfortunately, location of goods is often performed according to formalized principles, being a result of mechanical approach to distribution of goods. No wonder there is a popular saying that „there is everything in Poland but not where it should be”. Many articles (e.g. construction materials, furniture and household appliances etc.) can be much easier bought in the village. Among these articles often prevail such for which the town market represents a basic segment.

4. DIRECTIONS OF IMPROVEMENT OF DISTRIBUTION CHANNELS

The size of this paper makes it impossible to present all concepts pertaining to the problem in any bigger detail. Therefore, out of necessity, we can but present a rough outline of main directions of impro-

vement of distribution channels. They reflect the requirements presented in the previous part of the paper. We have already pointed out that between spheres of production, distribution and consumption occur numerous ties of complementary and substitution character. Wishing to utilize the effects accompanying these phenomena it becomes necessary to treat the whole market system as an integrated whole. Separate management of production and realization spheres and introduction of separate organizational structures on the scale of the whole market pave the way for formation of the institutional industry and institutional trade, which in consequence produces many negative effects.

Management should encompass all stages of the marketing process starting with production and ending with sale of the product to its end users as the market is indivisible from functional viewpoint. Such type of management requires large production and trade complexes. These complexes, however, should not be set up on the basis of administrative decisions. The point is to release functional integration between different participants of a distribution channel by means of proper construction of organizational structures of the market.

To this end, it becomes essential to establish mixed organizational structures of the market. There should exist not only companies specializing in production or trade of a definite product line — as it is the case today — but also companies participating in all stages of the marketing process (from production of a product to its final sale), and thus production-trade or trade-production companies. Such multivariant character of organizational structures in the market eliminates situations of monopoly in production or selling. In the situation when in the market appear companies encompassing through their activities both production of goods and their sales to end users then companies specializing in either production or selling will be forced to integrate their functions. In other words, there will appear then different variants of integration with each of these variants promoting development of functional integration.

The socialist state has at its disposal unlimited possibilities of appropriate shaping of organizational market structures in such direction that these structures become an effective instrument of its market policy. So far this instrument has not been fully utilized. First of all, organizational structures when shaped are not aimed at generating desirable competition between economic units while simultaneously inducing them to integrate.

This problem seems to have one more important aspect. Hitherto, there were present two trends in management of the national economy, the so-called centralized management system (with predominance of di-

rective tools) and decentralized system (mainly based on economic instruments). In both cases, the management system was not linked with the problem of organizational structures of the national economy, including market structures although these two things should not be separated. It is after all possible when a competitive situation appears in the market, which is primarily dependent on activity of a proper number of economic subjects, to transfer some decisions to these subjects, including even pricing decisions. In such a case prices will be a value independent of the company as they will be fixed in the market. So much so, the economic policy, including also market policy, should concentrate its attention, to a large degree, on appropriate construction of organizational structures of the market, i.e. it should employ management of subject type leaving the right of making decisions concerning concrete marketing processes (what to produce, in what quantities, where to locate goods etc.) with economic subjects.

Finally, it is extremely important for economic subjects to be able to utilize in their operational activity alternative distribution channels, to a large extent, within the framework of the above mentioned organizational structures of the market, and thus within general solutions in the field of distribution channels. The point here is that the route of product flow from production to consumption should be adapted to character of the product and the market. Apart from that, the same products may have different distribution channels depending upon the market segment (group of buyers) they are intended for.

The distribution system shapes the image of any economic system. If distribution is to represent a system from its best side then it should be remembered that its effectiveness is not determined by objective factors alone but also by subjective factors. That is why it is necessary to engage here people with professional background, familiar with principles and methods of marketing, and especially with modern distribution. This postulate refers to all levels of management. A big part of people holding responsible posts in the distribution network are guided by typically administrative categories and grew up in conditions of central distribution of goods.

They have not had any real contact with true trade. Selling personnel, on the other hand, has developed bad habits. Not only are they ill prepared for their work and have poor qualifications but they have learned to treat a customer like a suppliant is treated in a public office. It becomes necessary to apply different remedies in order to eliminate gradually such socially unfavourable patterns. One of such remedies is wider training of management personnel in foreign countries having a higher level of development of the marketing process, including di-

tribution. There should be also considerably modernized teaching programmes in the discussed field in secondary and higher schools.

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KANAŁY DYSTRYBUCJI JAKO NARZĘDZIE POLITYKI RYNKOWEJ

Wychodząc z analizy społecznego i ekonomicznego sensu dystrybucji i wszystkich użyteczności pojawiających się w tym procesie, autor dokonał szerokiego omówienia pojęcia kanału dystrybucji, jego roli a zwłaszcza wymogów jakie winny być stawiane kanałom dystrybucji. Przeciwnstawiając się tradycyjnym poglądom i rozwiązaniom zawężającym pojęcie i rolę kanałów dystrybucji, wskazał na kierunki doskonalenia kanałów dystrybucji związane z ewolucją systemu zarządzania w gospodarce narodowej, a w sferze obrotu towarowego — w szczególności.