

*Krystyna Iwińska-Knop**

CONDITIONS OF UTILIZATION OF DISTRIBUTION CHANNELS
IN THE COMPANY STRATEGY (CASE STUDY OF THE CLOTHING
MARKET)

This paper presents an attempt at assessment of the structure of distribution channels for consumer products and different flows within these channels, and especially flows of information, negotiations and physical movement of products.

This assessment will be performed taking into account 2 aspects:
firstly — possibilities of utilizing distribution channels to ensure a harmony between supply and final demand with maximum utilization of economic resources;

secondly — possibilities of utilizing distribution channels as a means of marketing strategy along with its remaining elements and especially the product.

Assuming that even in the economy possessing a uniform system of management distribution channels should be differentiated, I am of the opinion that the aim of the analysis may be at least partly achieved through empirical researches focussed on observation of flows and environmental conditions determining activities of particular links of the channel. The main thesis of the paper is a statement that uniform character of distribution channels reduces adaptability of these channels to needs resulting from features of the product and the target market segment.

Our analysis encompasses the clothing market, and more precisely eight production companies with a differentiated assortment structure and institutional framework (state and co-operative). The researches were carried out in two stages. The first stage consisted in direct observation of the company activities in the area of functioning and flows within the channel. The second stage aimed at collecting opinions of

* Dr, Institute of Marketing, University of Łódź (Poland).

decision makers in the company. Applying a method of the unformalized interview and treating decision makers as experts we tried to obtain their opinion about possibilities of utilizing distribution channels as a means of market manipulation. The researches were supplemented by observation of a trade link in one region to which these products were passed. This allowed to perform a diagnosis of the existing situation. It should, however, be mentioned here that researches completed by us are only of an illustrative character.

It seems necessary to define conditions in which the researches were conducted. These conditions are composed of three groups of phenomena:

1. characteristic features of the market,
 2. management and planning system,
 3. market situation in which distribution channels are functioning.
- Characteristic features of the clothing market include:

- common and continuous character of clothing consumption;
- big diversification in satisfaction of different needs of particular social and professional groups accounting for formation of different market segments;
- wide and rapidly changing assortment, shortening of products life cycles;
- complementarity and substitution in fulfilment of diverse utility functions;
- big influence exerted by the population's incomes on changes in the level and structure of demand;
- relatively rapid changes in tastes and preferences of population.

The clothing market is relatively, strongly concentrated, which leads to unification and monopolization of the structure of distribution channels¹. The market channel consists of three links: the producer operating independently of the other links in the domestic market, wholesale and retailing integrated with each other.

The present system of management and central planning imposing detailed directive indexes and applying prohibitions and orders excludes a possibility of choosing methods of activity to be followed by all participants of distribution channels. Decisional powers of companies

¹ The average number of the employed per one clothing company amounts to 390 persons in Poland while the corresponding figure in the FRG is 80, France — 60, Italy — 15, Holand — 72, Great Britain — 75, USA — 70. J. Waniewski, *Marketing wyrobów tekstylno-odzieżowych. Racjonalne rozwiązania* (Marketing of Textile and Clothing Products. Rational Solutions), Paper for symposium, Łódź 1976.

are restricted and reduced to implementation of tasks stipulated in the central plan.

Lack of general equilibrium, which is further aggravated by partial disequilibrium, poses difficulties in assessment of occurring phenomena. Thus e.g. ease with which products can be sold causes that production companies force production of more expensive products at the cost of cheaper products which aggravates structural conflicts between demand and supply. The producer does not pay any attention to consumer or end user. In this situation the task of distribution channels is not only to adapt them to the target market segment but also ensure conditions for motivation of supply.

The assessment of utilization of distribution channels in the company strategy can be accomplished on the basis of earlier formulated principles to be observed by the structure of distribution channels in the discussed market. These principles can be roughly summarized as follows:

1. All activities carried by all links in a given market channel being reflected in mutual contacts, information and stipulations should promote increased adaptability of channels to market requirements, which allows for their transposition towards motivation of supply. It is especially important whether a given distribution channel adapts itself to requirements posed by the product features and the target market segment.

2. There is a need to preserve a considerable elasticity of the market channel structure. The point here is to answer a question: does the distribution channel respond properly to changes in macro and micro-environment?

3. In the centrally planned economy the market channel structure should pave the way for reduction of discrepancies between tasks defined on the macroeconomic scale and passed to companies and micro-economic targets. The latter ones realized within a distribution channel should be uniform for individual links. That will be possible if flows passing through these links are coordinated and support one another to achieve a common target for all levels of a market channel.

4. Market channels must be correlated with other elements of the marketing mix, that is with product, price and promotion. Thus for example: active distribution policy may improve the product image and in this way increase effectiveness of the strategy through product. Correctly organized flow of information facilitates the product promotion. And finally, pricing decisions should be adapted to the form of distribution whether it be exclusive, intensive or selective distribution.

5. The structure of distribution channels and flows passing through

them should provide conditions for assessment of these channels. It is essential to create possibilities for cost accounting not within the framework of particular links but account of expenses referring to the whole distribution channel, taking into account functions performed by it. A distribution channel is treated as a system within which attempts should be made at constructing a quantified account of effectiveness.

Analysis of macro and microenvironmental conditions as well as conditions in which individual companies operate allows to state that distribution channels in the Polish clothing market are utilized primarily to ensure a harmony between supply and demand. They are, moreover, characterized with a considerable degree of unification and monopolization. This is reflected in behaviour of particular links of the market channel and market flows. The producer and the trade do not create a system and despite appearances they operate independently. Large, highly concentrated production companies possess a strong bargaining position. The distribution system reform carried out in 1976 was to ensure, among others, conditions of partnership in the market channel. The present structure of trade reveals features characteristic for large economic structures i.e. it operates in many branch areas, it encompasses a relatively isolated territory, and maintains ties with the central plan². Although there was accepted a principle that coexistence of consumer needs should determine the organizational branch structure of trade and though there were set up trade organizations in line with consumer needs, the present trade companies are characterized with universality and lack of adaptation to market segments. Consumer requirements are only to a small degree transferred to motivate supply.

The researches showed that producers often simplify their activity. They do not concentrate their efforts and resources on development of production adapted to needs of definite market segments but they tend to focus their attention on these assortments with which a minimum of effort allows them to exceed tasks outlined in the central plan. This absorbs raw materials, materials, and production capacities fully utilized in production companies. Thus elasticity of supply is ex definitione insignificant³.

² M. Strużycki, *Postęp techniczno-organizacyjny w handlu. Mechanizmy kierowania* (Technical and Organizational Progress in Trade. Management Mechanisms), Warszawa 1978, p. 282.

³ The so-called framework agreements providing for maintenance of production reserves of 15 to 20 per cent and allowing for current introduction of design, material, and technological novelties to trade did not fulfil the expectations. They represented an attempt at more evenly spread and better adapted to character of branches and assortment groups labour division between industry

The production company holding a monopolist position and operating in conditions of market disequilibrium tends to reduce its sales risk and subordinate the remaining links of the distribution channel. It can not only impose the terms of the contract being concluded but also destroy the effectiveness of all legal instruments left at the disposal of the buyer. This produces consequences of two kinds: contracts not only fail to reflect the existing market requirements but even in instances of their breach by the supplier, the supplier escapes punishment⁴.

Examples of failure on the part of producers to keep to contract terms are frequent changes of colouring of fabrics, their quality and type as well as lack of punctuality in execution of contracts. The last mentioned factor is of special importance in the case of seasonal goods. Delayed deliveries of these goods affect negatively the effectiveness of trade companies as a result of accumulating stocks and consequent sales at reduced prices.

Frequent changes in terms of contracts are caused by unsatisfactory co-operation between producers of clothing and textile industry. In co-operation contacts the existing regulations oftentime do not stipulate precisely limites of responsibility and risk-taking by negotiation partners. Raw materials barrier is a factor hampering adaptability of companies. This system continues to be highly ineffective from the economic, social and end user's points of view. The trade becomes quite often a barrier to introduction of market innovations and it is unable to exert any active influence on other branches of the national economy. Responsibility for provision of the market is treated too formalistically. The systems approach to the distribution channel must provide for joint responsibility for the market provision. Hence the need for evaluation of distribution links not only on the basis of implemented plan tasks but also degree of satisfaction of social needs. However, in as much as the position of the production company in the domestic market

and trade. They, however, failed to promote any bigger improvement of co-operation between links due to lack of proper changes in the field of tools and unfavourable market situation. (F. M. Sząg, *System współpracy między przemysłem i handlem a ochrona interesów konsumentów* (Co-operation System between Industry and Trade and Consumer Protection), *Roczniki I.H.W.i U.* 1978, No. 2, p. 49).

⁴ See J. Lewandowski, *Instrumenty prawne jako narzędzia wzajemnego oddziaływania i współpracy uczestników rynku*. Sympozjum naukowe nt. „Współdziałanie uczestników rynku jako czynnik postępu w zaspokajaniu potrzeb ludności” (Legal Instruments as Tools of Mutual Interaction and Co-operation between Market Participants. Scientific Symposium on „Co-operation of Market Participants as a Factor of Progress in Satisfaction of Population's Needs”), Warszawa 1977, p. 357.

allows it to neglect the buyer, the situation is more complicated in the foreign market. A company unknown in a given market experiences difficulties in selling its products. Its position is determined not only by its size but also by the image in a foreign market. That is why the Polish producer is forced to use services of a local middleman in a given market (this function is in most cases performed by an agent). The reputation of the middleman provides some kind of guarantee of quality of Polish products unknown in a given market.

The channel structure is, however, very extensive while operation of companies dealing with export and import of products shifts, to a large degree, the burden of responsibility from the producer to foreign trade companies simultaneously extending the time required for market flows.

Functional isolation of industry and trade links hampers co-ordinated flows within a distribution channel. A study of distribution links revealed that the role of information and negotiation flows is insignificant. The information flow constitutes a prerequisite of decision-making mainly at the central level, while companies practically do not benefit from it. It is visible even in the horizontal structure of the channel. In order to ensure elasticity of the market channel with regard to clothing it becomes necessary to have access to information not so much of normative type but rather of marketing type. It appears unfortunately that marketing researches conducted by the channel links have a limited scope and are rather of formal than practical and useful character. Even setting up of the Branch Center for Market Analysis, which co-ordinates such researches, did not increase the role of the information flow. A policy of elaborating perspective and long-term forecasts of clothing consumption by the industry is hardly advisable, while the trade is charged with a task of determining the volume of the consumption over one and two-year periods on the basis of demand trends, level of stocks and import volume. This reduces adaptability of the market channel and elasticity of supply. It is well known that stocks of clothing products tend to be excessive in the final link of distribution which is a result of multilevel distribution system as well as of institutional and not functional selection of criteria of the market channel organization⁵. It can further be added here that data comprised in short and longterm plans represent simultaneously a barrier to the information flow which is due to rigid provisions of the plan and their frequent corrections. It

⁵ The share of excessive stocks in overall stocks of some clothing articles in 1977 largely exceeded the national average of 3.3 per cent and amounted to: 7.5 per cent in textile coats, 6.6 per cent in textile clothes, and 5.7 per cent in knitwear.

appeared in the course of our researches that orders often resemble requests addressed to an economic unit remaining in a stronger bargaining position, and such position is as a rule held by a production company. Offers are sometimes nothing more than presentation of designing capacities of the industry and the offered designs cannot be contracted. Lower decision-making levels e.g. management of clothing stores have limited rights and practically they cannot place their orders directly in production companies. Similarly they do not participate in fairs and commodity exchanges⁶. In this situation grows the role of informal ties and relationships promoted after all by the management system.

In most cases there are used indirect forms of distribution⁷. The physical flow of products is not supported by the information flow. Deliveries are unpunctual and assortment supplied does not correspond to the order. The role of negotiations is limited. Administrative decisions, and system of goods allocation provide a binding basis for conclusion of contracts. At national fairs negotiations are restricted in practice to above-plan production which has not been centrally imposed by regional organs of authority.

In the structure of market channels no account is taken of requirements resulting from product features and the target market segment. If we divide clothing products into 2 groups:

- primarily staple items,
- primarily fashion items,

we can see that they satisfy diverse needs. Primarily staple items of clothing are to meet elementary needs of clothing while fashion items meet social, aesthetic needs, shape the image and personality of a man⁸.

Clothing companies utilize, however, the same structure of the market channel for different products. The above quoted classification is generally bypassed. Clothing products with different characteristics and satisfying different needs are sold through the same network of stores.

⁶ J. Kałek, *Badanie organizacji zamawiania towarów przez punkty sprzedaży detalicznej* (Analysis of Goods Ordering System by Retail Outlets), Roczniki I.H.W.i U. 1976, No. 2, pp. 134—136.

⁷ In the EEC countries, which account for 20 per cent of the world clothing production the wholesale plays an insignificant role in sales of textiles. It mainly acts as middleman in sales of staple items. Direct links with retailing represent the most important market channel. Thus e.g. in the FRG retail trade sells about 60 per cent of all textiles, in France — 75—85 per cent, in Italy 70—85 per cent, in Holand — 45 per cent and in Belgium 40—80 per cent.

⁸ This division is useful in predicting future demand, organization of goods ordering system, relations between sales and stocks, and physical realization of the product. For example, it is difficult to predict demand for new and fashion-

No account is taken of the fact that the distribution channel should consolidate the company image which involves application of monodistribution or dual distribution⁹.

Nonetheless, the completed researches revealed that some companies, whose product is accepted in the market, give preference to direct contacts with retail trade. An expression of positive integration attempts of the market channel links are the so-called rack-jobbing deals being a form of franchising, in which the producer defines exactly the place and forms of selling of his products. Managers of stores encompassed by such deals possess powers expanding their independence in taking decisions concerning especially selection of assortment. That largely increases the adaptability of the market channel to market requirements.

The analysis presented above, although it is limited to some basic problems, allows us to formulate some conclusions concerning increase of possibilities of utilizing distribution channels in strategy of companies.

1. There exists a need for evolution in the management system. This refers to extension of independence of companies, reduction in the number of directive indexes in favour of indirect methods of management which will ultimately lead to bigger elasticity of operations of the market channel links.

2. In order to ensure adaptability of the market channel it is necessary to:

- shorten the time period between conclusion of a contract and delivery of products;
- maintain production capacity reserves making it possible to adjust the product in line with changing market requirements;
- improve co-operation with industries producing fabrics for the clothing industry;
- change the present system of launching new fashions and of new product development which is connected with shortening their realiza-

nable products. It can range between full acceptance of the product and its complete rejection. It is often impossible to repeat orders for these products even in the same season. In the case of fashionable items there is often a direct relationship between sales within a week and initial stocks for this week. Within some limits these sales are proportional to stocks. This relation does not appear in the field of staple items. (L. W. Stern, A. El-Ansary, *Marketing Channels*. Prentice Hall Inc. Englewood Cliffs., New Jersey 1977, pp. 88—90).

⁹ Monodistribution is utilized with selective supply of branded items. Dual distribution is, on the other hand, applied in the case of nonbranded goods or goods the prices of which are not essential. See B. Tietz, *Marketing, Wisu-
-texte*, J.C.B. Mohr (Paul Siebeck) Verner Verla 1978, p. 491.

tion time and reducing the number of commissions approving new designs.

3. There must be integrated functions within a market channel. The role of trade cannot be restricted solely to acceptance of economic concepts of the producer and subordination to them. The producer should be interested in realization of ideas and marketing objectives of the trade company¹⁰. There must be also ensured transfer of functions within a given channel e.g. with the producer taking over wholesale and retailing functions there will grow effectiveness of applied instruments and launched market activities.

4. It is indispensable to remove excessively uniform organization solutions in the field of the market channel links. This involves introduction of different production and trade organizations, different forms of vertical integration which will enhance the element of competition.

5. Elimination of divergencies between detailed targets of particular links in the distribution channel involves synthetic determination of these targets which will still leave a considerable scope of freedom for the channel links in directions of their activity. This is also dependent on elasticity in disposal of resources allowing for accomplishment of these targets.

6. Although it is very difficult to construct a quantified account of the channel effectiveness, the construction of a cost account may be facilitated by applying a systems approach to the distribution channel. It is possible to design systems transformation of the organizational structures of the market and of their management tools in order to release stimuli encouraging market participants to launch integrated activity.

Krystyna Iwińska-Knop

WARUNKI WYKORZYSTANIA KANAŁÓW DYSTRYBUCJI W STRATEGII PRZEDSIĘBIORSTWA NA PRZYKŁADZIE RYNKU ODZIEŻOWEGO

Celem artykułu jest próba oceny funkcjonowania kanałów dystrybucji produktów konsumpcyjnych oraz strumieni przepływów tych kanałów a w szczególności strumienia informacji, negocjacji i fizycznego ruchu produktów. Jego tezę stanowi stwierdzenie, iż zunifikowany charakter kanałów dystrybucji utrudnia zdolności dostosowawcze tych kanałów do potrzeb wynikających z cech produktu

¹⁰ See R. Nieschlag, *Herstellermarketing und Handlemarketing im Wettbewerb*, „Cash and Carry” 1973, No. 5, p. 12.

i segmentu obsługiwanego rynku. Pod uwagę wzięto rynek odzieżowy. Rozważanie oparto o badania przeprowadzone w 8 przedsiębiorstwach produkcyjnych o zróżnicowanej strukturze asortymentowej, sformułowano zasady, którym powinna odpowiadać struktura kanałów rynkowych na omawianym rynku oraz wnioski odnoszące się do zwiększenia możliwości wykorzystania kanałów dystrybucji w strategii przedsiębiorstw.