THE DISTRIBUTION OF GOODS – AN OPPORTUNITY FOR SMALL AND MEDIUM ENTERPRISES

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ABSTRACT. The distribution of goods will have a strategic significance in obtaining a competitive advantage by firms in the competition on the global market. In order to respond to these challenges, the management of manufacturing firms must choose the distribution channel which is not only cost efficient but which best satisfies the needs of the end consumer.

In the case of beverage manufacturers, the most suitable solution is to externalize this activity to specialized firms.

Key words: manufacturer, distributor, distribution channel, economic opportunity

JEL classification L81

Introduction

Distribution includes those activities by which a particular product is put at the consumer’s disposal, where and when he/she decides to buy it. It comprises two very different, yet closely related domains: the distribution channels management and the logistics or the physical distribution.

A distribution channel is made up of intermediary companies that help the manufacturer to market the products, therefore enabling the link between manufacturers and the final consumers.

All distribution channels are marked by a certain inertia. For this reason, when a company is to choose a particular channel, the management needs to take into consideration both the present and the future circumstances that may shape the market.

This paper aims at presenting the distribution of goods in general and the distribution of beverages in particular, as a business opportunity for the Romanian SMEs.

Documentation and Methodology

The data referring to the distribution of beverages in Romania are extracted from the practical activity of the author, including information found in internal reports or statistics and specialised literature. These practical data enhanced the theoretical information retrieved from recent papers and presented in the bibliographical references.

Results and Discussions

The Role and Functions of Distribution

The objective of the distribution activity is to bring the offer and the demand closer together, so that all partners gain an advantage.

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Against the background of the constant development of economies, more and more emphasis is put on specialisation and work division. This fact triggers the disappearance of the link between manufacturers and consumers. The main goal of distribution is to reinforce the link between offer and demand by providing solutions for the spatial discrepancies. No matter the gravity of these discrepancies, the main functions of distribution are the following:

- **the transportation function**, ensuring the transfer of products from the production centre as close as possible to the place of consumption;
- **the fractioning function**; the manufacturers produce goods in huge quantities and it is convenient to fraction these production batches in smaller parts that satisfy the requirements of each customer, either wholesaler or retailer. The distributors transform the production batches in batches for sale;
- **the assorting function**; a certain sale point needs to offer several product types or models so as to provide a range of choices that is satisfactory and adapted to the consumers’ need;
- **the storage function**; distributors allow the rectification of the delay between the production period and the use of the product. We may speak about a form of “transportation in time”, that increases both the costs and the risk of goods deterioration;
- **the information function**; this function refers to the information provided to the user by means of the commerciant’s communication actions, like the product nature, sale price, the place where the product is available;
- **the financing function**; distributors finance the production as they purchase huge quantities of product from the manufacturers who do not have to wait for the products to be sold to the final consumers.

**The Structure of Distribution Channels**

The manufacturers who afford to create their own distribution channels are usually able to increase their earnings by increasing the investments in their main activity. Generally speaking, the intermediaries amplify the efficiency of the marketing activity, by increasing the access to the desired product for the target consumers. Due to the contacts established in time, the experience, the specialisation and the dimensions of the activities, the intermediaries offer to the manufacturing company numerous possibilities of exploiting the products.

The scheme of the distribution channels that can be found in the beverage sell activity is illustrated in Figure 1.

With very few exceptions, the companies existing in the beverage industry have given up the excessive control on the way the marketing activity is carried out, leaving this burden on the distributors. The main reasons for this situation are the following:

- the high costs of distribution;
- the impossibility to offer a wide range of products to retailers;
- the lack of an appropriate correlation of logistics between manufacturers and retailers;
Designing the Distribution Channel

The manufacturer’s distribution channel is nothing else but the result of the possibilities and conditions existing locally. This is why, for the design of these channels of distribution, manufacturers must compare the ideal variants with the realistic and useful ones.

One of the most frequent strategies used in the design of distribution channels is to dominate the channel. As it does not provide optimal results, a certain flexibility of the strategy is recommended in order to adapt it to the environment. A well designed system must be able to adjust to changes.
The firm must be acquainted with the advantages expected by the consumers from the distribution system. In the case of beverage distributors, the advantages are:

- **the size of the batch**, representing the number of products that a certain distribution channel can offer for sale on the occasion of a purchase.
- **the field distribution**, expressing the extent to which a distribution channel facilitates the purchase of a product by a consumer. Non-alcoholic drinks, water and alcoholic drinks must be present in as many selling points, bars, restaurants, grocery stores as possible, therefore requiring a very decentralised distribution system that is close to the final consumer.
- **the variety of products** represents the various assortments offered by means of a distribution channel. Buyers prefer a wider assortment that allows them to fulfil their needs and preferences.

Other elements that have been taken into consideration when creating the strategy and designing the structure of the distribution channels are:

- the storage conditions;
- the need to use transportation means of great capacity.
In the case of beverages, the distribution system from the manufacturer to the distributor ensures the volume, while that from the retailer to the consumer ensures the diversity of products.

The Distribution Strategy

A distribution strategy includes three elements: the intermediaries, their number, the rights and obligations of each participant in the distribution system.

In the case of beverages, the manufacturer works together with: distributors, wholesalers and retailers (grocery stores, bars, terraces, restaurants, etc). The distributors achieve great sales volumes, generally covering the territory of a county. The distributors market the products to the wholesalers, but mostly to the retailers from the territory for which they have a contractual obligation, ensuring distribution with their own means of transportation.

The rights and obligations of the members of a distribution channel are decided by the manufacturer according to the following elements: the pricing policy, the marketing conditions, the territorial rights and the services that are to be provided by each part.

In order to create an optimal distribution system, the goal is to find a balance between the needs and the objectives of all participants in the system: manufacturer, intermediaries, consumers, as it is shown in Figure 2.

The manufacturers’ logistics departments have permanent contacts with the distributors and have the chance to offer the services required by the latter, therefore enhancing the partnership between the two parties. The activities listed below must be taken into consideration because of their potential impact on both distributors and customers. The logistical resources held by companies must be directed towards those activities that are appreciated by the customers, that add value and consequently determine the competitive advantage for that particular company.

On each level of the distribution process the following elements must be taken into consideration (Gattorna, 2001):

- Who makes the decisions regarding supplies: quantity, frequency, delivery schedule;
- What type of structural range of products is being transported;
- Storage of products:
  - the availability of the stock
  - the rotation of the stock
  - the storage conditions
  - seasonal storage;
- The closeness to the market; the coverage of the potential market;
- The division of batches;
- The receipt and processing of orders;
- Delivery: schedule/frequency/route;
- Order management: invoices, notices of payment, payment orders, cheques, account extracts;
- Credit control: limits, credit conditions, financing, debts collection, incentives;
Price management: price modification, the value of price reductions, the influence of time and season factors;

- The sale, promotion, promotional activities, sale and representation probation;
- Relations with customers;
- Market information;
- The importance of the product for the distributor;
- The importance of the distributor for the manufacturer.

### The Management of the Distribution Channels

#### Chosing the Members of the Distribution Channels

After the company has chosen its distribution strategy, the intermediaries must be selected, motivated and assessed. At the same time, the contracts concluded with the members of the channel must be periodically revised.

As the manufacturers differ according to their capacity of attracting well prepared intermediaries in the distribution channel, the strong intermediaries prefer big manufacturers.

A beverage manufacturing company uses the following criteria for the selection of intermediaries:

- the company must have a great development potential;
- the company must own appropriate and compatible logistics and a separate division for beverages;
- the company must be organised according to the manufacturer’s model (logistical compatibility);
- sufficient and qualified personnel;
- high – quality management.

As for the logistics, the minimum requirements for becoming a beverage distributor are:

- the existence of a warehouse with adequate conditions for stocking beverages;
- the availability of transportation means of appropriate capacity;
- qualified labour force that is organised in a separate division for beverages;
- the available office automation must provide feedback, a necessary element for a good collaboration between the two companies.

#### Motivating the Members of a Distribution Channel

Motivating the members of a distribution channel is a permanent activity, so that the activity that they carry out can reach the highest levels of performance.

The motivation levers of intermediaries by the beverage manufacturers can be grouped into two categories: general facilities and direct facilities, as indicated in Table1.

Periodically, the manufacturer must assess the results obtained by the intermediaries in their activity: volume of sales, average stock, the time spent for serving the customer, treatment of damaged and irretrievable products, cooperation in programs of preparation and programming as well as services provided by intermediaries to customers.
THE DISTRIBUTION OF GOODS – AN OPPORTUNITY ...

An important criterion in the evaluation of the performances of a distribution channel is market coverage which points out the penetration of the market by means of that distribution channel and the opportunity for the consumer to buy that product.

Table 1. Motivation levers of intermediaries by beverage manufacturers

<table>
<thead>
<tr>
<th>General facilities</th>
<th>Direct facilities</th>
</tr>
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<tbody>
<tr>
<td>the provision of a vendable, quality product, with a positive impact on the final consumer</td>
<td>dicount of tactical price</td>
</tr>
<tr>
<td>strong promotional programmes for the products</td>
<td>advantageous credit term</td>
</tr>
<tr>
<td>high-quality commercial presentation</td>
<td>the provision of empties on guarantee below the real value (or free)</td>
</tr>
<tr>
<td>the respect of contractual stipulations by the manufacturer</td>
<td>free transportation ex warehouse</td>
</tr>
<tr>
<td>the lack of quantitative limitation of orders</td>
<td>the free provision of promotional materials</td>
</tr>
<tr>
<td>price discount</td>
<td>granting territorial contractual exclusiveness</td>
</tr>
</tbody>
</table>

The analysis criteria used by the beverage manufacturers for the performance assessment of a distribution channel are:

a) **sales performances**
- sales volume
- sales increase
- intermediary market share
- product market share

b) **storage performances**
- warehouse capacity
- average stock
- stock/sales ratio

- stock rotation speed
- number of internal transport vehicles

c) **sale capacity**
- number of sales agents
- sales agents who sell products of manufacturer

- capacity and structure of vehicles
- number of active customers
- frequency of visits

Integration in Distribution

The principle which states that “one can eliminate intermediaries but not their functions” is unanimously accepted in marketing. The relationships and levels of the channel can be put together either horizontally or vertically under the channel leader.
management (Figure no. 3). Integration can stabilize the offer, reduce costs and increase coordination among the members of a distribution channel.

A conventional distribution channel consists of an independent manufacturer, one or several wholesalers and one or several retailers. Each one is a living entity in search of increasing their profits. None of the members has total or partial control over the other members.

At present, vertical distribution systems evolve rapidly as they compete with conventional distribution channels.

Vertical integration of a channel consists of combining one or several levels of the channel under the leadership of a single firm. A member of the distribution channel can take over the operations of another member or, simply, fulfill the duties of other members, thus eliminating the need for those intermediaries to exist as distinct entities.

Total vertical integration combines all the functions fulfilled by a product from the manufacturing stage until it reaches the final consumer.

The participants in a vertical integrated channel combine their efforts to reach well-defined target markets. This allows the channel members to see the others as extensions of their own operations.

**Figure 3.** Types of distribution channels (Gatorma 2001, Kotler 1997)
Here are some variants of the vertical distribution system (VDS):

1. **Corporate VDS** combines all strategies from manufacturing to the final consumer under the leadership of a single firm. Vertical integration is a solution for companies which aim at having control over the distribution channels.

2. **Administrative VDS** is a system in which the members of the channel are independent but inter-organization management through formal coordination is highly present. Although the members of the channel are autonomous as in conventional channels, one member of the channel dominates the administrative VDS so that, when decisions regarding distribution are made, the system is seen as a whole.

3. **Contractual VDS**, the most frequent of the VDS types, is a system in which relations between members are formalized by means of contracts with a view to obtain the reduction of costs or the increase in sales volume at a higher rate than could have been obtained if acting individually. The members of the channel are bound by legal agreements stating the rights and obligations of each member apart. This is the case for partial vertical integration, based on contractual provisions, which includes only distributors. Further along the distribution channel, contractual agreements can be made between distributors and wholesalers or retailers without involving the manufacturer.

**The Distribution of Goods – Economic Opportunity for SME's**

After Romania’s accession to the European Union, several significant aspects of the economic field have become relevant also for the SME’s in the process of their development, such as:

- Finalization of the adoption and implementation of several legislative and administrative measures aiming at consolidating the institutional and organizational capacity so that the business environment in Romania complies with the EU standards;
- Improvement of the legislation framework in the financial and fiscal areas in view of enforcing financial discipline and stimulating investors and entrepreneurs;
- Legislative measures to encourage SME’s to reinvest profits for the consolidation and development of their businesses;
- Invigoration of the domestic credit and activation of the capital market;
- Increase the access of SME’s to financing, mainly from EU programs.

**Why the Distribution of Goods?**

Introspection in the study *Carta Alba a IMM-urilor din Romania* (White Book of the SME’s in Romania) reveals a few particularly important observations concerning the SME’s focused on “wholesale trade” within the general SME’s framework:

- considering the weight in the national mass of the profit obtained, “wholesale trade” (51 CAEN code) is situated first weighing 21.1%;
- in 2005, 90% of the total number of the SME’s classified as wholesalers scored profit;
- The cost of labour force is very low as compared with other areas of activities. The average number of the newly employed by a wholesale SME is 2.34
persons/year with 15.9% annual increase (average at national level for all SME’s is 3.15 persons/year or 19.5%)
- 75% of the wholesalers consider the increase of sales on the internal market as the greatest business opportunity.

In order to support an affirmative answer to the question from the subtitle, further reasons can be mentioned along the abovementioned aspects:
- Most of the competitors from this market are Romanian firms with little tradition in this field, which results in an open competition without market leaders;
- The market is under continuous development as demand is insufficiently covered and new distribution firms can easily find place;
- Many geographical areas are not covered by specialized distributors (rural areas, mountain areas);
- The accelerated development of the infrastructure;
- The availability of low cost storage spaces;
- Labour force is low or medium qualified and is quite easily available;
- The manufacturers are strongly committed to support the distribution process (contracts, logistics, financial aid, know-how);
- The accessibility of the IT & informational system;
- The fierce competition among producers brings benefits to distributors (new products, promotions, discounts, promotional materials etc.);
- The opportunity for the distribution of highly notorious products (brands) such as Borsec, Ursus, Murfatlar, Jidvei, Coca-Cola, Pepsi etc. which facilitates the success of sales.

A Real Economic Opportunity – the Distribution of Beverages

Over the last few years, the market of beverages has followed an upward trend with a level of increase beyond average at national level. This is due to the development in the activity of the companies acting in this field through the massive investments made in this industry. For instance, four of the seven world producers from the beer industry are present on the Romanian market (Interbrew, SABMiller, Carlsberg and Heineken).

As a consequence of the fact that the increase of the income ratio outruns significantly the price index in this field, the volume of sales accelerated from one year to another.

The Romanian beverage market weighs nearly 17% from the total food consumption market which, by the end of year 2007, will have been worth more than 2.4 billion euros.

The average consumption per capita for most of the products from the beverage category (except for spirits) has increased continuously:

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² Source: MEMRB Bucarest

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From the perspective of logistics, these products are compatible and share common features:

- they are large volume goods;
- they use the same type of empties (bottles, PET, crates, cardboard boxes, metallic cans);
- they are transported and handled in pallets;
- on 98% proportion they are transported with vehicles (trucks);
- they are stored in closed spaces.

A positive aspect for the distributor is that the abovementioned products are complementary from the point of view of seasonality: peak season for water, beer and cooling drinks is summer while winter is peak season for spirits and wine, thus allowing both a balance in sales and a more balanced phasing of the payments and receipts from trade.

Although at this moment, the wholesale trade in Romania counts more than 63 000 SME’s (58 000 of which are micro firms)\(^3\), the distribution of beverages is still inefficiently covered. This allows the active firms from this sector to develop at a very fast pace both in turnover and regarding the geographical area of distribution. Here are a few examples of such firms\(^4\):

<table>
<thead>
<tr>
<th>No.</th>
<th>Firm</th>
<th>Turnover (thousands of euros)</th>
<th>Distribution area (no. of counties)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>„Top Market“ Baia Mare</td>
<td>7.500</td>
<td>16.200</td>
</tr>
<tr>
<td>2.</td>
<td>„Miruna“ Timişoara</td>
<td>5.700</td>
<td>19.500</td>
</tr>
<tr>
<td>3.</td>
<td>„Elboris“ Cluj-Napoca</td>
<td>3.200</td>
<td>9.500</td>
</tr>
<tr>
<td>4.</td>
<td>„Rotecom“ Târgu Mureş</td>
<td>12.600</td>
<td>31.800</td>
</tr>
</tbody>
</table>

This economic opportunity is definitely available strictly for SME’s and not for micro firms. Initially, the investment of capital is relatively important (entrance barrier) but, once the business is set off, the return of profit stands for its efficiency. Also, the exit barriers are insignificant and do not require high costs.

\(^3\) Carta Alba a IMM-urilor din Romania, 2006, Ed. Olimp, Bucuresti
\(^4\) Reports of Ursus Breweries Plc. Cluj-Napoca Subsidiary
Conclusion

Looking at their strategic significance, the decisions made by the beverage manufacturers regarding the distribution channels are at the same level as those regarding the product with influence on the increase of profitability of the firm on the long term.

At the same time, the option of the manufacturers to use indirect distribution channels by means of intermediaries (distributors) turns into a real economic opportunity which can be successfully turned to good account by the latter.

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