

Aspects Regarding the Distribution Strategy on the International Industrial Market

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Abstract: In the paper we have dealt with the topic linked to the distribution strategy on the international industrial market.

At the beginning we have illustrated the process of the internationalizing in the field of distribution and we have also explained the components of an international distribution channel.

At the end of study, we have presented the importance of the physical distribution in the marketing strategy on the international industrial market.

The distribution is made up by the totality of activities which have as final goal the product transfer (materials, component parts, finished goods) from manufacturing firm to the consumer/beneficiary.

During the last 15 years, the internationalization program in the field of distribution has registered a considerable acceleration. Due to the desire of consolidation of the market position and to obtain the scale economies, the distribution firms in Europe have turned towards new external markets.

The largest European distribution companies entering the external markets are: Ikea, Benetton, Body Shop, Laura Ashley and Carefour¹. The American distribution companies, more and more frequent on the external markets are: Mc Donald's, Pizza Hut, Blockbuster Video and Tos'R'Us.

The firms involved on the international market have developed their distribution channels taking into account the particularities of every market. Among the problems facing the distribution firms entering the international markets, the most important are: differences regarding the consumer behaviour (the type of preferred

¹ Memo Enseignes de Lineaires, 2000-2001

product, buying habits etc.), legal environment, taxation system, expenses in the location-building field, high cost of labour force, cultural differences, IT technologies.

Figure No. 1 presents the distribution channels used within the industrial international marketing².

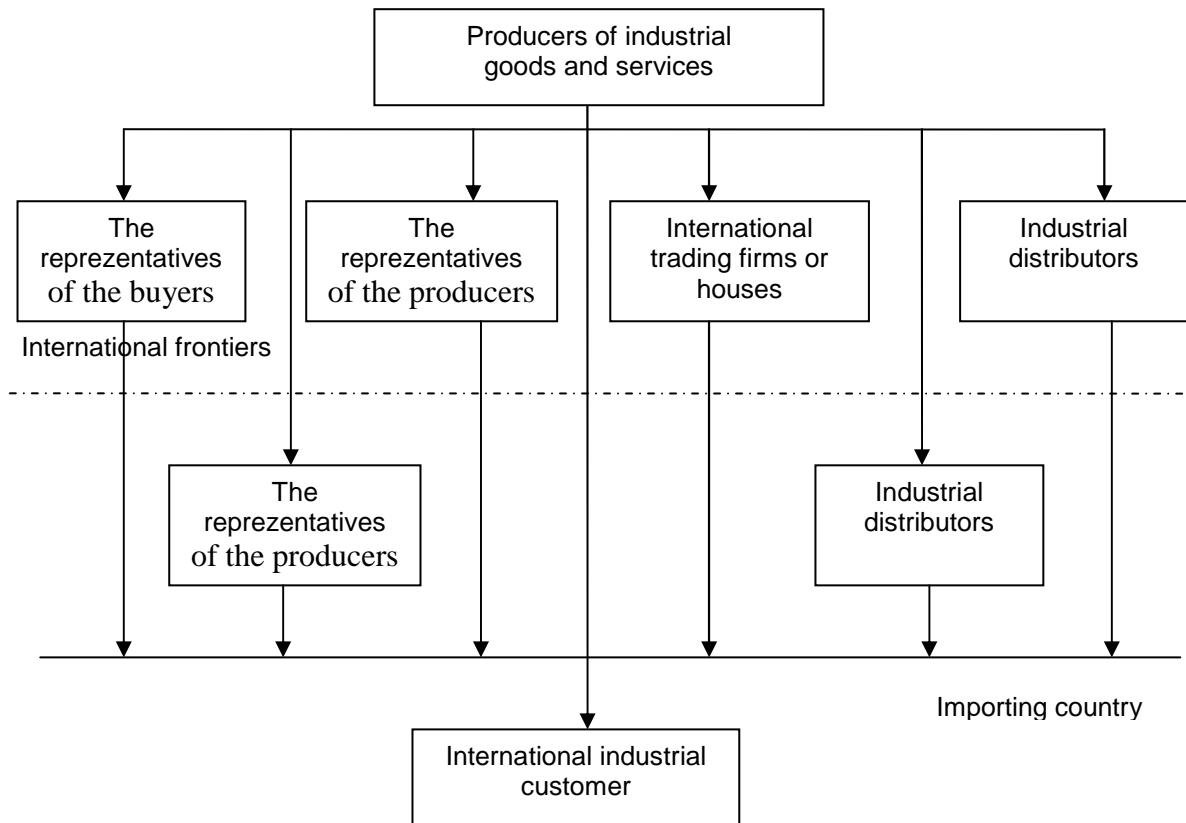


Figure No. 1
The structure of the distribution channels on the international industrial markets

We shall refer in the following fragments, to the forms of indirect distribution. These forms of distribution represent trading ways supposing the intervention of an intermediate ring between producer and consumer/beneficiary.

Among the advantages of adopting the indirect distribution one can mention: a good coverage of the market; product assortment adapted to the consumers' demands; reducing costs through lowering the number of contacts; reducing the risk of non-payment; flexibility of the price policy. As disadvantages one can mention: the necessity of a permanent motivation of the middlemen, difficulties in the adoption of the manufacturing company to the market demands; possible conflicts between the brands of the producer and those of the competitors traded by the same middlemen and indirect information about the market³.

² Brânză, A., Cișcă, V., Gherasim, A., *Distribuția și logistica mărfurilor*, Editura Junimea, Iași, 2005

³ West, A., *Managing Distribution and Change to Total Distribution Concept*, New York Wiley and Sons, 1992, pag. 26

The components of an international distribution channel are:

- **The buyers are residence of the origin state of the products or are representatives of the buyers** – the transaction is realised within the origin country of the goods through a middlemen dealing at the same time the transportation of the products towards the external clients;
- **The representatives of the producers** – can be local firms or foreign ones, having international contacts and relations. Some producers have “export agents’ which concentrates upon buyers from different countries, becoming acquainted to these markets too;
- **Industrial distributors** – some distributors, called by the speciality literature “export middlemen” buy local goods and sell them abroad or/and assume the marketing responsibilities of the producers with the help of its own sale force and of the agreements with other middlemen. Besides these there exist “Import middlemen” too, represented by the local companies which sell the products to some foreign distributors, these one trading them further to the organizational buyers placed in the markets in which they operate.
- **International trading firms or houses** – there exist firms which realise selling-buying operations, even at the global level. These buy from many producers, sort the products and sell them internationally.

Irrespective the used distribution channel or channels, the marketing directors from the industrial field must also manage the physical distribution of the products among the manufacturing firms and the using one. When we say “products” we refer both to materials and component parts and to the finite ones.

Further on, treating the problem of physical distribution, we must bring into discussion six main activities such as: transport, stocking, inventory control, stocks manipulation, the protection of goods through package, processing orders.

Transport activities

Decisions linked to transport are usually taken on two levels. First of all the manager must determine which transport modality or modalities should be used in order to deliver products towards clients or middlemen. Once the decision taken, one should select one or several transporters. The transportation is an important element of the physical distribution on the industrial market, and taking decisions may have long time effects.

Within the industrial marketing there are used five classical transport modalities. The goods can be delivered on sea, air, railway land and in some cases, through pipes. In many cases combinations can be used (for example: tracks are transported on long distances by trains). In choosing the modality of transport, the marketing manager must take into consideration the following aspects:

- The implied cost for each transport modality (for example, the comparison cost of a delivery on highway with one on the railway);
- The speed of the delivery (it can cost less a transport by train than by lorry, but it can take a longer time, a component which may be important if time is an essential component);
- The punctuality of the means of transport (for example, establishing the transport modalities that can not deliver the merchandise in due time in an acceptable manner. While the pipe is an acceptable modality of transport for

the petroleum products, it is not at all fit in the case of the most industrial products);

- The accessibility of the types of transport (for example, establishing the modality of transport that can be used by certain clients from more isolated areas);
- The protection of goods during the transportation.

The transporters must be compared from the point of view of cost, punctuality, accessibility and the capacity to furnish the desired service. Many organizational clients have developed relations with transporters and prefer to still use them, specifying imperiously this fact within the dealt agreements.

As a conclusion, the transporters are chosen when the manager is convinced that they can deliver the products in an acceptable state, in time, for a reasonable tariff, also taking into account the conditions imposed by the buyer.

Under the circumstances of describing the classical modalities of transport it becomes necessary to precise the fact that: some organizations have created their own transport systems, such as the lorry fleets. Thus, they have a total control upon the shipment.

Warehouse activities

The decisions regarding the warehousing imply the localization of the products or of the warehouse locations in such a way that the firm can serve the most efficiently possible its buyers or/and middlemen. The basic functions of the warehouses may be resumed to receiving, stocking and facilitating the delivery of goods towards the clients. By using strategic placed warehouses, an industrial firm can furnish superior services towards clients by compared to the case of direct delivery.

Some companies hold and administrate their own warehouses. This alternative, although very expensive from the point of view of the initial investment, allows a total control of the levels of stocks and deliveries. A cheaper alternative is given by the public warehouses. These are private businesses having as their main activity to deposit, to receive and sometimes to deliver goods against payment. Instead of building up its own warehouse, a firm can take in location a space inside a public warehouse that does not need initial investments. Choosing one of the solutions mentioned above takes into account some factors such as financial bonificity of the firm, the controlling degree, the size and the variability of the demand. During the last years, the tendency is to use public warehouses due to their high rate of interests, high costs of the lands and high interests. These factors make the public warehouses be a more accessible solution.

The depositing action is tightly linked to the distribution channels used. For example, if an industrial marketing director uses direct channels or representatives of the producer, the activities regarding the depositing action belong to him. If there are used distributors, these are preoccupied by the depositing action. In other instances, both the distributor, and the producer are involved in warehousing activities.

Stock control

In order to prevent stock fragmentations one should establish certain levels of stocks in order to satisfy the needs of the buyers or middlemen. A high level of stocks means high costs. Thus, the manager should find a balance between these two factors by means of the stock controlling process. As a principle, the stock control

means establishing some minimal and maximal values for the level of stocks. The superior value is usually established in order to satisfy the demanded level of the services asked by the client, while the minimal value is based upon the period of time in which stocks can be re-gathered, this means the time to prepare the delivered plot and the transportation time. When stocks reach the minimal level, a new order is launched.

One of the main objectives of an efficient physical distribution system is the one that aims to minimize the distribution costs during the supplying of the service towards the client, fact that explains the use of some specific methods in stock controlling.

Materials manipulation

The handling and the manipulation of the materials involves the physical movement of the stocked goods inside the warehouse or anywhere else inside the physical distribution system. The activities in this field are realised with the help of stacking machine, conveyor bands, industrial tractors, cranes, or other kind of the equipments in the field necessary for the manipulation and warehousing activities. We also include here the staff engaged to realise all the manipulation and stocking activities.

Products packaging and protection

The goods that have to be dispatched or stocked must be wrapped in order to be protected during the transportation and the manipulation. The protection function realised with the help of the wrapping activity is thus vital in avoiding the deterioration of the products. The manager should take into consideration factors such as costs occasioned by tanks, boxes and their filling, wrapping costs, legal demands concerning wrapping, the products characteristics and the requirements of the clients when they do this kind of activity.

Processing the orders

Besides transport, warehousing, stock control, products manipulation and wrapping, the manger must set up a processing system capable to follow these functions. This normally implies the processing of the orders, their communication and other complementary activities linked to the data processing, activities necessary to the development under good conditions of the physical distribution.

Most industrial companies do not perceive these six fields as individual functions, but as an integrated system of physical distribution. It supposes in many occasions comparisons, such as between he transport costs and the warehousing ones. This belongs to the so-called concept of total cost occasioned by physical distribution.

Kotler developed the following equation in this direction:

$$D = T + FD + VD + S$$

Where,

D = total costs with the hole system distribution;

T = total costs with the transport inside the system;

FD = fixed costs with the warehousing inside the system;

VD = variable costs with the warehousing inside the system;

S = total cost of the lost sales due to the delays inside the system;

The use of this equation helps the manager to take into consideration the possible options and select that system which minimizes the total cost occasioned with distribution.

For a better understanding of the aspects presented above, we will use the following example: the marketing director must choose between using an industrial distributor holding a warehouse and the construction of its own warehouse in order to supply its clients. In both cases the highway transport will be used. The clients' locations are known and also their requirements. Actually, from their point of view, both options are valid. If the industrial distributor will be used, the fixed costs and the variables will be lower than in the case of opening its own warehouse. In the case in which the distributor does not deliver the products in time, the cost occasioned by the lost sales can be sufficiently big and neutralize the advantages. On the other hand, if the manager can control the distributor and can furnish to the clients the desired services, this option becomes more adequate.

The physical distribution is a cost within the industrial marketing, and thus it has an influence upon the process of selection of the distribution channel, especially if one of the main objectives aims the minimizing of the costs.

It is known that, the distribution costs as a percent in sales account in average 13,6% in the case of the manufacturing firms, but can vary from 4,4% in the pharmaceutical industry, at 10% in the case of the firms producing tools and machinery, at 11,2% in the case of paper industry, at 13,3% in the electronic industry, at 14,1% in the chemical industry. These costs are high and can be appreciated better if we compare them with other marketing activities. For example, in the chemistry industry, the costs linked to distribution may rise up to 14,1% while the costs occasioned by sales achieve 3,2%, and those occasioned by advertising at 0,5%. The highest costs are to be found in activities linked to transport, warehousing and stock control. Thus, the 14,1% costs occasioned by the physical distribution in the chemistry industry are spread as follows: (1) 6,3% transport, (2) 3,3% warehousing, (3) 1,6% stock control, (4) 1,4% packaging, (5) 0,6% reception and manipulation, (6) 0,6% order processing, and (7) 0,3% administrative costs⁴.

The producer's costs referring to the physical distribution vary in relation to the type of distribution channel used. For example, if a producer uses a direct channel, he will support all the expenses linked to distribution. On the other hand, if the manager uses distributors in this channel of distribution, many costs will be shared with the latter. This means that the choice of the distribution channels must take into account the costs with physical distribution too, because from this point of view, the direct distribution is the cheapest for the producers.

Whenever distributors are used, the costs with physical distribution will be lower, due to transport in large quantities, to the reduced necessities regarding the warehousing and lower costs with stocks. If the marketing director uses a representative the costs linked to physical distribution depend upon the representative's clients. If this one sells directly to the industrial clients, the costs are alike to those used in direct distribution, in the moment in which the representatives do not enter in the legal possession of the products. If the representatives sell to distributors, which at their turn sell the products further on to industrial clients, the costs resemble much more with those described in the case of distributors. These factors must be taken into consideration in the moment of developing of the industrial distribution channel.

⁴ Brânză, A., Cișcă, V., Gherasim, A., *Distribuția și logistica mărfurilor*, Editura Junimea, Iași, 2005

The importance of the physical distribution within the marketing strategy, on the industrial international market

The importance of the physical distribution within the industrial marketing can be determined only after examining the way in which the industrial buyers perceive this kind of service offered by suppliers. Within the specialty literature it is appreciated the fact that, in choosing the suppliers, the physical distribution is the second criteria as importance, after the products quality, the latter being considered even more important than the price. As a result, those who buy are available to pay further for some logistic well set up services. At the same time the clients change suppliers, if the latter do not offer them the merchandise delivery in due time, in situation of lack of stock, inadequate services, lack of reaction in the case of a rapid order etc.

This kind of behaviour is the result of the necessity of the industrial buyer to maintain a certain level of stocks from reasons linked to the manufacturing process. If these buyers are in the situation to finish the stocks of exchange tools or components, the losses are huge. Consequently, the logistic is one of the factors the most important to be taken into account when a manager enters the industrial area.

Many producers have adopted the supply system called JIT ("just in time"). Using this system, the managers establish several weeks before the consume necessities, and thus, the suppliers had the possibility to send the tools directly to the manufacturing line, without appealing to their stocking. This means that the delays from suppliers are not allowed due to the negative impact which might have been caused to the manufacturing process. The concept reduces significantly the costs of the producers, but brings great pressure upon the suppliers or distributors which must deliver the merchandise in due time and in the stated order.

Further on, we are offering an example: suppliers deliver to the automobiles manufacturers the necessary equipments and tools at every several hours, and these ones are sent directly to the manufacturing line. The suppliers load the chairs as colour of the cloth is concerned in conformity with the production plan, which happens in advance. If the automobiles have a black part inside, they are assembled at a certain time, then the chairs having a black cover must be delivered in the same time. Due to the importance of the concept, many suppliers have moved the location of the distribution centres closer to the important clients. Although this concept applies to commercial buyers, as time passes and it develops, it will start to be applied by institutional and governmental clients too. It already functions well on some international markets, such as automobile industry in Japan.

Implications of the physical distribution upon marketing

Physical distribution has major implications upon marketing. It has been demonstrated that physical distribution is even more important when the number of deliveries towards the buyer is greater. This means that the marketing director must be extremely attentive when delivering the merchandise towards firms that buy with a high frequency and try to maintain the relations with the latter as long time as possible.

We may add the fact that the manger must give attention to the clients buying rarely, even if the delivery towards them takes place at longer time intervals.

As a conclusion, the physical distribution is extremely important for buyers and it is used as a competition instrument within the industrial marketing strategy. It is, almost any time, important to the clients, and in some circumstances even vital.

Among the competitive advantages offered to the clients we may also enumerate:

- helps the clients to become aware of the way in which efficient services linked to physical distribution contributes to profit achieving;
- Helps the same clients to make the difference between a high quality service and one of an inferior one when confronting with a situation regarding physical distribution.

Used properly, the field of physical distribution can contribute to have loyal clients among the existing ones and to the creation of dissonance in the mind of competitor clients aiming the enlargement of new development opportunities in those directions.

Giving it a special importance, the physical distribution contributes to the loyalty of the existing clients and the attraction of some new ones, concluding collaboration, medium-term and long-term agreements and offering at the same time, a competitive advantage on the market.

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