

CONSIDERATIONS REGARDING THE DISTRIBUTION OF INDUSTRIAL GOODS

Elisabeta Andreea BUDACIA

PhD Lecturer

Romanian – American University

Abstract:

The industrial goods market should be approached primarily from a practical standpoint; hence, we must mention that a company addresses distinct categories of economic agents.

The distribution process must meet the appropriate conditions of achieving products in accordance with the requirements of the businesses operating on the market, taking into account the nature of products, consumption structure, the presence of competing units, the structure of media outlets, the specific situation of the development of production and marketing at certain times.

Distribution management includes all economic activities and industrial organization aimed at transferring goods from the producer to the user, by means of specialized units, logistics and personnel. Thus, it must be kept in mind that distribution management has two components: economic distribution (distribution channels) and physical distribution (logistics).

Regardless of the number and variety of businesses participating in the distribution of an industrial product, the interests that dominate their activity, a decisive say in the development of strategic decision regarding the orientation of distribution lies with the producing company, however, not ruling out the possibility of other strategic views among the other participants in order to achieve a complete flow of goods.

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1. Conceptual aspects of the industrial goods market

The industrial goods market is the place for trade and economic relations between the selling and / or buying, it is practically the confrontation manifestation of supply and demand, which then translates into acts of sale at a certain price level, established by negotiation.

The industrial goods market should be approached primarily from a practical standpoint. Hence, a company addresses different categories of traders. The following figure shows the main types of markets that a firm that offers goods for industrial use addresses its offer to.

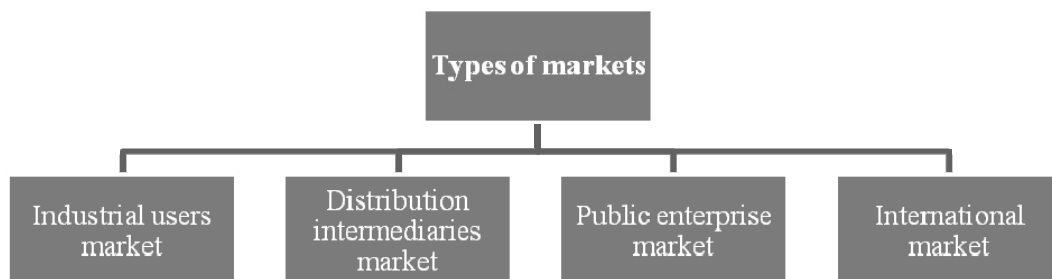


Figure no. 1
Types of markets addressed by a company providing industrial goods

The delimitation of the industrial market requires the consideration of a range of specific issues, among which the most important are the following:

- ~ Industrial consumption, the number, class and the importance of possible customer businesses;
- ~ Type and methods of production of consuming enterprises;
- ~ Manufacturing criterion and possible means of modernizing the technological process;
- ~ Raw materials used;
- ~ Type of products produced;
- ~ Supply practices;
- ~ Storage policy;
- ~ Planning projections;
- ~ Logistic conditions;
- ~ Structure of products forming the merchandise offer.

Compared with individual consumption goods market, the intermediary consumption market has a number of distinctive features:

- the number of buyers in this market is limited;
- there is a certain dependence of the industrial market on the general investment policy of the state;
- every purchase is conducted based on performance, with the objective of scheduling some goods or materials to ensure the smooth conduct of certain activities;
- within this market there is a diffusion of responsibility for purchasing, purchase decisions and actions representing the result of a collective decision

for which the technical and production departments, investment sectors, supply department, legal department, etc. are responsible.

2. Features concerning the distribution of industrial goods

Through distribution, the company's economic activity is completed, as it recovers the resources invested in the product in cash, and obtains a certain profit margin.

The distribution policy of industrial goods ensures, on the one hand, the supply of goods made by a producer to the final user, and on the other hand, the creation of all the conditions necessary to facilitate users to find products in accessible places, in appropriate time, in sufficient quantity and of appropriate quality.

The distribution process must meet the conditions of producing the appropriate goods, in accordance with the given market conditions, by taking into account the nature of products, consumption structure, the presence of competing units on the market, the structure of media outlets, the specific situation of the development of production and marketing at certain times.

Directing the goods, their physical movement is preceded, accompanied or followed by a series of flows that bind together participants from the entire distribution process¹:

- *the promotional flow* includes promotional messages about the product and its use addressed to intermediaries, buyers and other stakeholders, in order to sell;
- *the negotiation flow* includes all talks taking place between the manufacturer and the intermediary (as purchaser), aimed at an agreement between the two in relation to routes that the goods will travel, technical and economic changes that they will bear, responsibilities and deadlines that must be met;
- *the orders flow*-transfer of intentions of purchase from intermediaries or users to the producers;
- *the funding flow*- refers to the attraction of the necessary funds for purchase;
- *the payments flow*- the transfer of the amounts representing the value of orders from buyers to sellers;
- *the transfer of ownership flow* from producer to purchaser is accomplished through sales and purchase agreements;
- *the commercial risk flow* refers to risk taking on traded goods during their movement within the distribution channel;
- *the information flow* refers to the bidirectional movement of information, records, statistics on the size, structure, methods of distribution-related activities and economic - financial results.

¹ Ph. Kotler, *Managementul Marketingului*, Teora Publishing House, Bucharest, 1999, pp 663 – 664 (adapted and added)

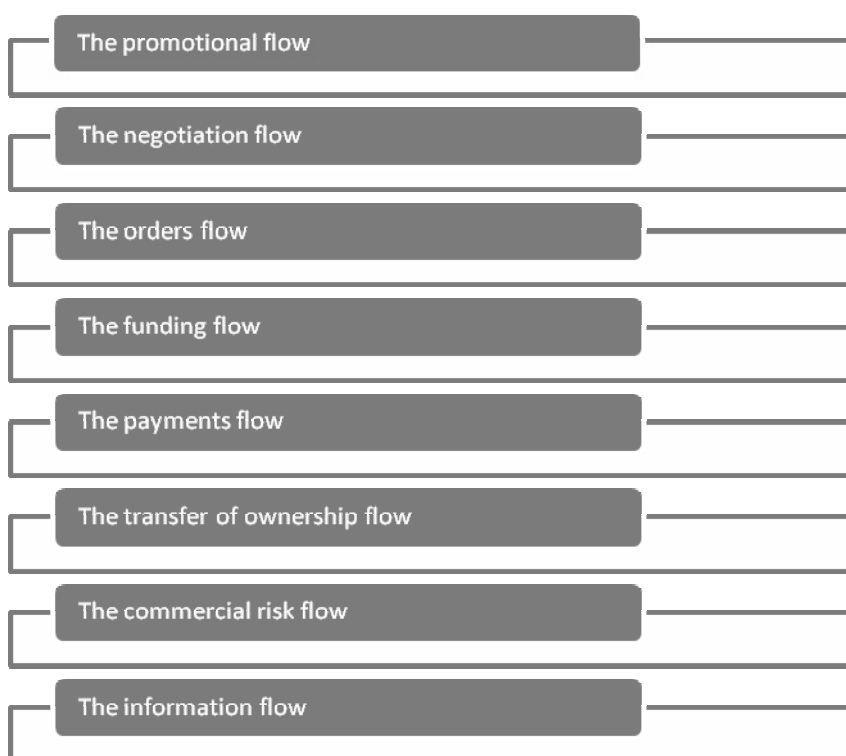


Figure no.2
Distribution channel flows

Distribution management includes all economic and industrial organization activities aimed at transferring the industrial goods from the producer to the user, by means of specialized units, logistics and personnel. Thus, we must keep in mind that distribution management has two components: economic distribution (distribution channels) and physical distribution (logistics).

An appropriate distribution management must meet several requirements such as: setting specific objectives in line with the company's strategic objectives, as well as with the other elements of the marketing mix, anticipating the emergence of factors or events that may hinder objectives, planning and organizing specific activities that operate under specific market conditions, establishing the optimal distribution strategy, but also be able to determine when it should be changed, obtaining useful information on the efficiency and effectiveness of distribution channels.

2.1 Distribution of economic industrial goods

Distribution channels are groups of interdependent organizations involved in making a product or service available for use or consumption. The distribution channel includes the combination of entities and activities through which it carries out acts of sale - purchase. The channel is composed of a chain of links through which the goods pass successively, changing their place, their owner and sometimes their physical appearance. The distribution channel includes on the one hand the manufacturer (entry point) and the consumer (exit point) on the other.

The distribution network is a strategic combination of channels useful for an efficient distribution circuit. The concept of distribution channel refers to the organizational and institutional aspects of the products' path, from their production by the manufacturer and up to the target consumer, with all its nodes, designating groups of independent organizations involved in bringing said products to the consumers or users for consumption. The distribution channel should be considered as a set of intermediaries performing various functions in the transformation of a product from the producer to the final consumer.

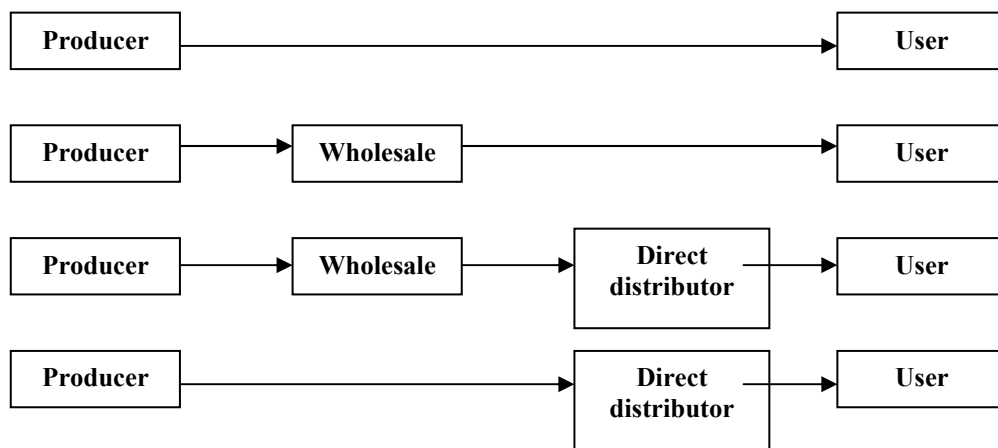


Figure no. 3
The main distribution channels of industrial products

Regarding the specific parameters that can be considered in decision making on establishing various distribution channels, it should be noted that they may be numerous and very diverse, given the complexity of the problems companies face on the market. Among them, the main issues concern:

- the intermediate categories that can be employed within each market area;
- the specificity and structure of rights and obligations that can be negotiated with various potential partners;

- a possibility of realization of the channel in accordance with the product intended to be highlighted through marketing channel;
- the reciprocal nature in providing product-specific flows, the adaptability of businesses providing services to the requirements of the marketing channel;
- the size of distribution channels in certain areas of the market;
- the quality and level of professionalism of the staff of intermediary companies;
- the sales forces of companies in the distribution system on certain markets;
- specific cooperation systems.

2.2 Logistics of industrial goods

Physical distribution represents a complex of responsibilities regarding the movement of raw materials, semi-finished and finished products and the development of an optimal transport route. It considers the moving and efficient handling of the company's goods and services, traded through established channels, from producing businesses to user units.

In industrial marketing, physical distribution includes organizing and managing all the supply operations and movement of raw materials from the source, to the end of the manufacturing line, to the final users.

Establishing the policies for distribution and therefore each logistic system is achieved through:

- market requirement analysis in the context of which the company operates;
- studying current methods of distribution, the costs involved and the size of the product flow in the channels used;
- researching possibilities of alternative of multiple distribution systems;
- comparative evaluation of various alternatives studied and choosing the best one based on forecasted costs and investments required by each alternative.

According to recent works in the field, specialists consider logistics itself as a complex process of operational activities to assure the achievement of customer satisfaction².

The American Marketing Association defines physical distribution as "the movement and handling of goods from where they are produced to where they are consumed or used." Philip Kotler believes that the main objective of logistics is bringing the products to the right place, at the right time, and at the lowest cost.

The contents of the logistics system are given by a series of activities taking place within its chain, and can be divided into the following components³:

² K.N. Gourdin: *Global Logistics Management: a competitive Advantage for the 21st Century*, Blackwell Publishing, Molden, 2006, p. 2

³ * * *: *The Boot Leg*, *Trafic World Magazine*, July 19, 2004, p. 15, quoted by D. Patriche in *Tratat de Management Comercial*, Universitară Publishing House, Bucharest, 2007 (adapted).

- study of customers;
- management of product structure and assortment;
- transportation;
- storage and handling;
- packaging;
- information process;
- estimating market demand in different areas;
- production planning;
- procurement;
- location and strategic placement of warehouses.

Studying the customers requires, on the one hand the analysis of some aspects of their needs manifested through production planning, and on the other hand the analysis of complaints regarding the quality of products, and some suggestions for their improvement.

Management of product structure and assortment refers to the management of our product portfolio. An important issue is the structure of supply, so it is always adapted to new technologies and requirements.

Transportation is the most important component of logistics, but also one that has the largest share in its cost structure. Transportation management raises a number of issues: the use of adequate transportation, the conditions in which the product is delivered, duration, goods and means of transportation insurance, the existence of one's own fleet of vehicles or means of rent, the amount of goods transported.

Storage and handling have a particularly important role. Storage aims to offer efficient storage management so as to ensure a rhythmic rotation of merchandise under such terms that the selling process is unhindered. Manipulation involves handling storage spaces so that products are not affected in terms of quality, and space is effectively harnessed.

Packaging refers both to protection of the products that are transported or stored, and ease and rationalization of storage, handling, transportation and warehousing. In recent years, its focus has been on the use of packaging so that it doesn't pose negative effects on the environment, specifically being biodegradable and recyclable.

Information involves providing a permanent link between all stakeholders in the logistics system so that no gaps exist (uncontrolled pauses) in activity development. Information is facilitated by the development of computer technology, which allows sending and receiving messages in a very short time. To this end,

various online marketing techniques are used by companies in order to pursue their goals and sustain their overall strategy⁴.

Estimating demand considers buying intentions analysis of actual and potential customers and providing the required goods in adequate time and space.

Production planning is considered by many authors as an independent activity, but its relationship with logistics is regarded as a recipient of information from the field of use of the said industrial goods. Depending on feedback received, production specialists will determine the necessary materials and supplies, and also new specifications for the products.

Procurement refers to the acquisition of raw materials, subassemblies, etc., in order to obtain final products. This activity has a direct impact on both the costs and the quality of products.

The location and strategic placement of warehouses are made according to the existing infrastructure and supply needs. In considering this, flawless customer service is necessary in terms of opportunities - time, place, quantity, assortment and price structures - and, secondly, minimizing business costs.

The main preoccupations of distribution policy when it comes to physical distribution can be summarized as follows:

- ~ Establishing the system for the internal circulation of products;
- ~ Locating the inventory and determining the storage systems for various products;
- ~ Providing permanent control system over stock size and structure;
- ~ Establishing the order processing technology;
- ~ Choosing adequate transportation within the distribution circuit.

3. Strategic features of industrial goods distribution

Regardless of the number and variety of businesses participating in the distribution of an industrial product, the interests that dominate their work, a decisive say in the development of strategic decision regarding the orientation of distribution lies with the producing company. However, there is the possibility of strategic views among other participants in achieving a complete flow of goods.

The issues regarding the process of distribution strategies substantiation as well as the choice of different strategic options are rather complex. A structured and schematic presentation of the issue is illustrated in the following figure.

⁴ G. Orzan, O.I. Macovei, C. Iconaru, **A. Perju** – *An empirical TAM-based model of Romanian SMEs' intention to continue using online marketing techniques*, Metalurgia International, Vol. 8, 2012, p.152 .

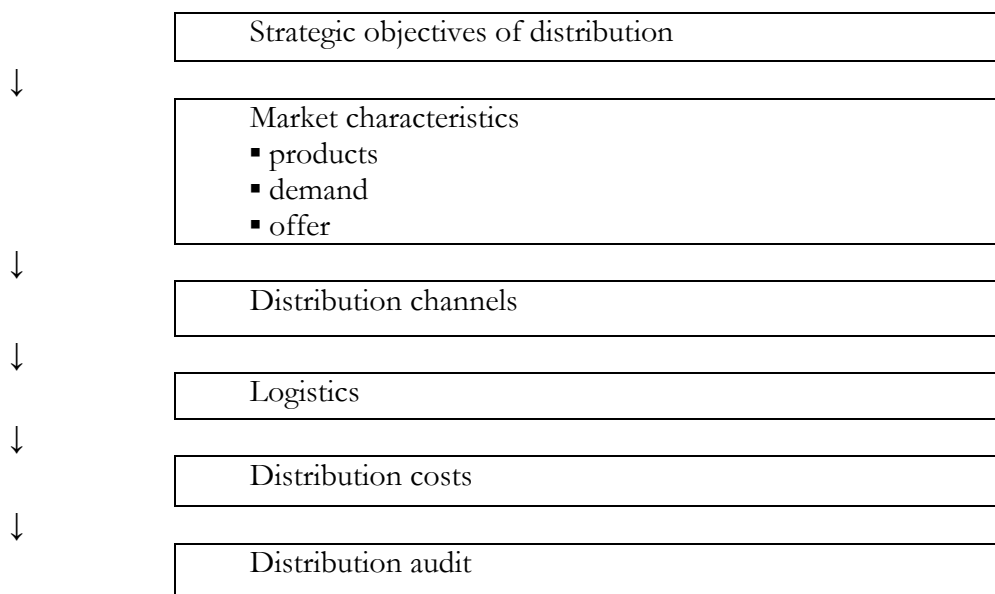


Figure no. 4
The rationale of the distribution strategy

(Adapted and processed from J.J. Lambin: *Le marketing stratégique*, McGraw-Hill, Toronto, Paris, 1989, p. 242)

The framework coordinates of the distribution strategy of grounding process consists of the following aspects: determining the structure of the distribution network - rationale for the presence of intermediaries and opportunities for the vertical or horizontal structure of a distribution circuit; determining and defining the intensity of market coverage concerns - analysis of product characteristics , the coverage offered by various types of distribution, different aspects specific to each market area; determining the structure of communication tactics to be adopted in dealing with intermediaries and users of the products. To these aspects in the framework establishment of distribution strategies, three important elements are added: economic calculation, management aspects - especially those concerning control - and opportunities for adaptation.

Conclusions

The distribution concept encompasses the regulation of goods and services movement between production and consumption, as well as meeting the users' needs, providing them with a range of services, such as proximity of purchase, the

opportunity to choose from a large assortment of goods that correspond to their needs and demands. In this respect, the main functions of the distribution process, considered when formulating relevant policies are:

- the transfer of ownership of products through sales and purchase agreements;
- product movement - transportation, storage, conditioning, handling, dismantling or assembling them;
- management of specific marketing activities, such as decision making concerning the collection of market information and use of said information.

Trying to adapt to new requirements and economic changes, the distribution systems of goods and services have suffered multiple transformations over time. Within these transformations, distribution methods have also evolved uninterruptedly, outlining new ways or systems, as well as new strategic distribution models.

All logistics activities must be conducted in through an integrated system in which individual decisions are based on lucrative insurance and benefit of a whole - the company or distribution channel that it belongs to or is affiliated with in various forms and activities. The strategic concept of distribution - where logistic system is included - aims to ensure, at a certain time or in a given period, and within a determined budget, an optimum combination of distribution channels, sales forces and physical distribution of products achieved by the company that will allow it to reach its objectives.

Shaping the place and role of logistic distribution strategies implies a meaningful analysis to provide the practical valences of good structuring of logistics activities and their appropriate inclusion in the managerial concept. The analysis covers planning and overall strategy of the company, programming and marketing planning, marketing strategy and, finally, the distribution strategy. Concerning the functions of distribution strategies, it is shown that they are subordinate to the basic functions of distribution.

Regarding the choice of distribution strategies, we mention that a number of issues can be considered, that can be taken as the criteria of comparison and choice. These concern: the category of intermediaries acting in different market areas, the number of distribution circuits that may be retained as a strategic choice, the size of distribution circuits, the nature and degree of specialization of the marketing channels used, the structure of each channel and the degree of selection of distribution, the rights and obligations of each participant in the distribution system, the implications of strategic alternatives on the company's management process.

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