

Redefining the Role of Distribution and its Relationship with Production

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Abstract

At first, the distribution of goods played the very clear and simple role of buffer between the time when the goods were produced and the time the clients' demands were processed. The distribution strategies, the location of storage houses, the levels of delivery and operation were conceived based on this role, which has allowed facilities, processes, technologies and policies to emerge. It has also helped define the functions underpinning the way distribution worked and is still fundamentally working even today.

Today, however, the traditional functions of the distribution of goods are challenged by the business environment while the level of competition is considerably higher. The supply-delivery chains grew rapidly and substantially, especially after the emergence of online distribution; the volumes of demanded and circulated goods increased; the size of the orders decreased while shipment solutions diversified. Furthermore, information technology opens new avenues to improving operations, especially because customers suggest and demand ever more significant investments in IT and IT-based technical support.

Amidst these general trends, the classical operating mechanism of distribution (stocking, storage, and delivery) needs to shift towards supplier – producer interaction in order to speed up delivery and cut

down delivery costs while also finding solutions to a customized answer to the clients' specific demands.

Keywords: distribution, production, logistics, trends, relationship

J.E.L. Classification: D21 - Firm Behavior: Theory

1. Introduction

The distribution's goal is mainly to *transfer finite goods from production to purchase and consumption*. This transfer implies a series of specific activities, the most important of which are how to locate the outlets, to establish the ways to supply them, to create the system for the goods' transfer, handling, transportation and insurance as well as to use certain methods to exhibit, present and sell the goods. In other words, the term '*distribution of goods*' can be understood as a *complex of means and operations the purpose of which is to provide users and/or customers with goods made by a producer*.

2. The Concept of Distribution: Content and Meaning

Conceptually speaking, the framework, the means and operations that the concept of 'distribution' implies allow, however, setting apart the *commercial distribution* of goods as part of their *physical distribution* which is, in its turn, part of the wider and integrating concept of *logistics*.

Logistics is a modern concept that both replaces and includes the classical concept of physical distribution of goods. From the point of view of its content, logistics is the dynamical management of supply-delivery (Burda, 2010) chains which goes beyond the mere circulation of goods to which it adds or associates a constantly increasing range of specific activities and services. It acts through an active influence over production starting from the detailed understanding of consumer needs and

requirements, while overall it adds the functions of time, space and utility to the structure and operation of the supply chain.

We should not mistake logistics with the movement or circulation of goods, because while these concepts refer to the physical movement of goods from producer to consumer, the concept of logistics refers to a much wider process of planning, implementation and control. This process starts with determining the needs of the consumers the products are destined to in order to plan supply and production and ends once logistics has achieved its goal, namely, *when the finite good is provided to the intermediary/end user/consumer under the time, place and presentation parameters desired by the respective user/consumer*. The actions within this process are aimed at appropriately satisfying consumer need as well as at increasing the turnover of each economic player involved in the circulation of goods. It is mainly about the producer and supplier, but also about the consumer and various service providers (transporters, insurance agents, financiers, IT software providers, etc.).

Physical distribution, as part of the logistical process, is the main tool through which logistics can achieve its goal. According to this approach, the activities typical of distribution become complex tools correlated with the facilities provided by the new technologies, such as the Internet, which imply increasing requirements as to space and time spans, real-time and very swift information, tighter delivery deadlines, larger area of operation, and so on.

Commercial distribution, as part of the physical distribution, is essentially the transfer of propriety over a product from the producer to the user/consumer. Institutionally speaking, this transfer can be made via what we call ‘distributors’. These are economic players of various categories (producers, wholesale stores, retailers, mail delivery – including e-trade, etc.). The specific activities of commercial distribution consist mainly of creating an interface between the producer and consumer interests (explicit and potential needs). Thus, the geographical and time spans between producers and consumers grow shorter through the

connection of various geographical areas and national and international economic circuits, as well as through the regularization and balance between production and consumption, doubled by an active support in the development of the specific activities of each area. Thus we can consider that commercial distribution, in view of the activities it implies, plays the role of economic catalyst that connects all enterprises operating on the markets in unified and balanced systems.

In order to facilitate the activity of commercial distributors and to help specialists intervene in the management-based guidance of various specific activities, the concept of commercial distribution can be approached through a series of dimensions (Patriche, 2006), underpinned by the relationship between the consumer and the respective producer. These dimensions have different names, such as mass distribution, exclusive distribution, intensive distribution, open distribution or selective distribution.

Mass distribution refers to a significant concentration of goods through their exhibition in large quantities or numbers in a certain facility or store. *Exclusive distribution* refers to product or service distribution systems that operate either uniquely or exclusively through an economic player that takes on or is given the status of exclusive distributor. The exclusive distributor ensures commercial distribution in a precisely set geographic area within which he/she is the sole rightful distributor by virtue of an exclusive sales contract with the producer.

Intensive distribution is a system in which the producer seeks to market its products and make them available to potential customers through the highest possible number of outlets. *Open distribution* refers to a system of a commercial distribution of goods made up of intermediaries, i.e. all types of enterprises that could potential sell the respective goods or services.

Selective distribution refers to the selection of only some enterprises out of a range to ensure the selling of a certain product while the selected individual distributors do not enjoy exclusiveness.

3. The Role and Function of Physical Distribution of Goods

When analyzing the role of distribution, we must start from the assumption that the producers and consumers are separated by space, by the differences in the quantities provided by each producer and the quantities requested by each consumer, as well as by the difference between the time needed to make the product and the time consumer demands become manifest. Under these circumstances, the distribution of goods as an intermediate stage between production and consumption must ensure the necessary *demand-offer balance on the market as well as a seamless transaction flow*. Its role is to regulate the movement of goods between production and consumption and to satisfy consumer needs.

In order for it to fulfill this role as well as to help orient production and often consumption, physical distribution must fulfill a whole range of functions that are important both for producers and other related enterprises as well as for the consumers. This complex of functions helps ensure the appropriate flow of goods from producers to stores. These functions are divided into *traditional and modern functions*, respectively.

The traditional functions of physical distribution are the following (Patriche, 2006): (1) adjustment of offer and demand according to space; (2) time correlation between demand and offer; (3) adjustment of the quantity and customization of goods; (4) assorting the goods, and (5) exhibiting goods in the store.

The adjustment of demand and offer according to space (1) is a 'spatial' function of physical distribution that must take into account the size of its area of operation amidst globalization and the modernizing exchanges of goods and activities.

The time correlation between offer and demand (2) corresponds to the specific logistical activities that can also be found at the level of physical distribution. It implies harnessing the time proximities by

providing the maximum speed to the circulation of goods, continuously renewing current product flows and saving time in their economic circuit, changing storage, delivery and financing policies for commercial operations.

The adjustment of quantities and customization of goods (3) means to deliver the goods in the quantity and in the form requested by the consumer. It is associated to the function of *assorting the goods* (4) which means to gather in the same store goods that meet various segments or parts of consumer needs. It is a very important function today when the variety of products tends to exceed the limits of distribution networks which confuses the consumer in his/her attempt to satisfy certain needs. This function can be currently found mainly in commercial distribution.

The exhibition of the goods in the store (5) or 'merchandising' refers to the way the goods are exhibited for selling in a certain space (store, on a billboard or in a catalogue). Its purpose is to facilitate information, increase attractiveness and help the purchasing decision.

The modern functions of physical distribution (Patriche, 2006) make the transfer from a competition-based relationship with the producer to a partnership-based one. They are (1) product conception and marketing; (2) information management, and (3) developing new sales concepts.

Product conception and marketing (1) refers to the involvement of distributors in developing and planning their own products that are obtained with the help of specialized producers and distributed via their own network of stores. Thus, these distributors practically control the supply-delivery chain and the related logistics while the producer gets the status of specialized provider. The products are sold under the distributor's label which is beneficial to both producer and distributor. In the case of small-sized producers, the main benefit is the possibility to access markets that are otherwise virtually inaccessible due to the level of competition. For larger producers, the benefit is a better presentation of their goods under different labels and at smaller prices thanks to lower taxes.

Information management and control (2) refers to the opportunities the new information technology offers distributors. The distributors, by implementing IT systems in their own stores, acquire and store detailed data on sales and consumer purchase behavior throughout the selling process. These data underpin the sales-related information. These are actually information about (a) demand and (b) goods, respectively and are available to the distributor.

The information about demand (a) is vital to any producer because it allows him/her to adapt the sales strategy to the development of demand and to provide high-level delivery. Furthermore, this information helps better plan and coordinate the activity of both parties in such a way that it would cut down production and storage costs while speeding up the circulation of goods to the benefit of both producers and distributors. These data can be collected, processed and sent thanks to computer and automated technologies such as bar codes or electronic labels.

The information about the goods (b) is provided to the consumer and refers mainly to the existence and quality of the producer's goods. At this level, the producer-distributor collaboration allows to expand this communication to the level of a better promotion of both the producer's goods and the distributor's store. The mutual benefits are significant, especially for the distributor. He/she enjoys indirect benefits – increasing sales of the advertised good and implicitly the profits – as well as direct benefits – advertising the image of their own store which allowing these units to rise from mere shops to the level of “shop product”.

Last but not least, *developing new sales concepts* (3) refers to the creation of a specific product (the “shop product”) in the form of a global concept with numerous specific features about range, presentation and sales-related services as fundamental elements of the sales strategy.

4. Solutions for Redefining the Production-Distribution Relationship

Currently, a series of major solutions in logistics and physical distribution of goods can be identified at EU and global level. These solutions have specific features that vary from one organization to the other, from one market to the other, as well as common elements such as increasing uncertainty or the need for constant change. These solutions mirror the fundamental mutations in the way the production-distribution relationship is approached given that producers change their supply chain capacities in order to adapt to the transition from an industrial society to an IT-based society.

The most relevant solutions in logistics and physical distribution of goods, though of uneven relevance, from the viewpoint of the producer-distributor relationship are as follows (Bălan, 2006): transition (1) from competitive to cooperative thinking; (2) from projection to collaboration in planning, projection and supply; (3) from offline to online distribution; (4) from functional integration to process integration; (5) from vertical to virtual integration, and (6) from information protection to information sharing.

The transition from competitive to cooperative thinking (1). The competitive-based transactions are characterized by a 'win-lose' philosophy, by the sellers' attempt to estimate the client's demand while distribution does not provide information about demand or planning, as well as by short-term profits at the expense of the other. Cooperative or partnership-based thinking, on the other hand, focuses on the benefits that organizations could enjoy if they achieved shared goals, and on constant accountability. In order to develop cooperation within the supply chains it is necessary (a) to stimulate mutual trust; (b) to create structures and establish assessment patterns in order to bolster inter-organizational behavior.

The *purpose of stimulating mutual trust* (a) is to develop a common vision and certain goals about interdependency and cooperation through the coordination of the producers' and distributors' operations and strategies in order to provide the best value to the end consumer.

The purpose of *creating structures and establishing assessment patterns to encourage inter-organizational behavior* (b) is to precisely determine the roles and responsibilities, to define the coordinates of sharing the necessary information for planning and developing operations, to create the financial links that make organizations dependent on mutual performances and to establish the procedures to manage both routine and unexpected events.

Transition from projection to cooperation in planning, projection and supply (2). The management of the supply chain implies that both producers and distributors commonly draft plans for providing better services to the end consumer. Therefore, it is necessary to share information and constantly adjust product, process and facility projects in order to make full use of the benefits of high-quality information. To this end, it is necessary (a) to increase the control over the activities and related information; (b) to perfect information management systems in order to facilitate Internet-based exchanges, and (c) to enhance mutual trust between the partners along the chain in order to enhance their openness towards sharing tactical or strategic information (e.g. projections, advertising campaigns, product development plans, etc.).

Transition from offline to online distribution (3). Another challenge is to develop e-trade and direct logistics which implies (a) to create new business models; (b) to develop the managers' abilities to tackle situations that are typical of “immaterial” products and markets, and (c) to use decision-making support tools in order to identify and assess new product distribution models.

Transition from functional to process integration (4). It is possible to cut production and distribution costs significantly by (a) integrating supply, production, physical distribution, and marketing; (b) achieving

producer-distributor integration in defining, conducting and measuring processes, and (c) creating a process-oriented stimulus system.

Transition from vertical to virtual integration (5). The vertical integration of several successive levels of the supply chain within the same organization was determined by the goals of increasing profitability, cutting costs, and adjusting the response speed to market demands. Currently, vertical integration is gradually replaced by virtual integration. The producers and distributors seek to integrate the consultants' knowledge-oriented processes such as data collection, information storage and assessment. The major benefit is the possibility to focus on the essential needs of the business.

It is possible for the organizations to shift towards virtual integration only if (a) they improve the abilities of managing the assets and activities they do not control directly (in the case of managers that ensure the interface with material and service providers), and (b) the partners develop a common view of the way value is created and responsibility is assigned in order to achieve synchronization and harness the complementarities in the companies' strategies and operational capabilities.

Transition from information protection to information sharing (6). Currently, the benefits of sharing information with the partners in the supply chain are far larger in terms of saving costs and improving the services provided to customers than those that come from the use of this information but the organization who owns it alone. The developments of the information technologies stimulate this trend. In order for the shared use of information to be successful, it is necessary (a) to enhance trusts within companies and between producers and distributors; (b) to shift focus towards medium- and long-term benefits; (c) to share information confidentially, and (d) to develop several options for exchanging information.

In terms of enhancing *trust within companies as well as between producers and distributors* (a), managers should learn to share and use

information with the rest of the departments within the respective organization, as well as with their business partners.

Shifting the focus towards medium- and long-term benefits (b) means to take into account the substantially larger benefits that partners could enjoy if they shared and used information about projection and planning that they have at hand.

By *sharing information confidentially* (c), the distributor, if he/she works with competing rivals, can build a special team for each major client, made up of employees of all major functional areas (sales, marketing, finance, logistics, etc.).

The *development of several options for sharing information* (d) may rely, for instance, on the exchange of files, direct access to databases, personnel of third-party providers of logistical services dedicated to a particular delivery location, etc.

Conclusions

The increasing importance of the modern functions of physical distribution and the new solutions in logistics bring significant changes to the producer-distributor relationship in terms of increasing the importance of the distributor's contribution to the producer setting the logistical strategies and therefore the importance of the communication between distribution and production on a larger range of aspects related to the activity of physical distribution, in general, and commercial distribution, in particular. Distribution thus acquires a complex, relevant and beneficial role both for the producers and the logistical intermediaries, as well as for the consumers and users of the products.

As for the producers, we should underline the fact that distribution provides the regularization of manufacturing, handling, transportation, customization, storage, and delivery, which allows the concerned participants of the process to structure their activities, i.e. to plan them according to orders, to cut storage and costs accordingly. Therefore, they

can reduce the risks posed by the season- or circumstances-related uncertainty of demand, while distribution can help thanks to the payments for the stored goods and related services (storage, conservation, customization, etc.), among others, even when the certainty of the sales is lower.

As to distribution, through its modern functions and amidst the current trends in logistics, it can allow the producer to steer production and achieve an effective enlargement of his/her markets according to mutual interests, by taking part in the organization and performance of the advertising operations meant to ensure better visibility and marketing of the products.

Last but not least, in what the relationship with the customers is concerned, distribution plays the very important role of bridging the ever larger space and time spans between the producer and the consumer. Moreover, distribution allows communication between the producer and consumer in such a way that it would avoid misunderstanding and reduce the negative impact of a poor knowledge of the details of the producers' offer, an impact which affects both the producer's and directly the distributor's activity and profitability as part and parcel of the logistical process and the circulation of goods.

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