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## Managing the company's distribution system

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### ABSTRACT

The effective distribution system plays an important role in a company, it means chances for success for a company and for maximized profit. Current company practices demonstrate that company's distribution system management is conducted separately, with means of the departments of logistics and marketing. This article pertains to the company's distribution system. The essence and functions of distribution are defined in the beginning. Then, distribution channels used in a company are described in detail. Finally, distribution strategies are described in detail.

**Keywords:** logistics, distribution, company, distribution management

### 1. INTRODUCTION

Logistics plays an increasingly important role in the company's operation. Currently, logistics are not only the flow of services and goods, but it means also money and information. Distribution logistic shall have the coordinative function, in order to pursue own goals, it collects and transfers demand data to a company, as well as provides contacts with market and provides chances for the promotion of goods. Distribution logistics shall play the organizational role, based on activities, such as warehousing or transport.

Distribution is a basic company's function, with means of which a company operates on the market, sells own goods and/or services. Therefore, the effective distribution system plays the important role in a company, it provides opportunities for success for a company and for

maximization of profit. Current company practices demonstrate that the company's distribution system management is conducted in a separate way, with means of logistic and marketing departments. The performance of company's goals requires a product, that is designed for the sales and is relocated to a retail point of sales, where it is respectively presented to a customer, in proper quantity, in proper time and at acceptable costs.

Distribution is a link that combines a producer with a consumer.

In economy sciences, division of particular goods among society members is understood as distribution. It can take place in the form of market exchange, namely as purchase and sales transactions, as well as in the form of services that are allocated on the basis of formerly settled criteria. Whereas, from the macroeconomic point of view, distribution is a process and a structure for relocation of goods from a manufacturing place (producer) to final recipients. Distribution is a separated set of market channels and connections between them. We can discern two decision-making problems in a distribution framework.

One problem is related with the selection of sales method, thus with stipulation of types of distribution channels in the transactional manner. The second decision-making problem is so called physical distribution, that is related with the selection of relocation methods for goods, from a production place to a destination place.



**Picture 1.** Distribution structure

Logistics is the integrated process of planning, organizing and controlling the flow of goods and the related information, in the field of distribution of goods. Physical distribution is understood as operations pertaining to the relocation of goods from a manufacturing place to places of destination.

## 2. DISTRIBUTION CHANNELS

Distribution is the marketing instrument interacting with market. Distribution is based on crossing temporary, quantitative, spatial or assortment barriers. Its goal is organizing the flow of goods from a manufacturing place to a final recipient. It also has a coordinative function (it leads to the balanced supply and demand) and organizational function (all processes related with a product, i.e. transport or warehousing).

In the scope of activities and instruments related with distribution we can discern: distribution channels and physical distribution. Distribution channels are organizations that participate in delivery of services or products to a final customer. We can find many definitions for distribution channels reported in the literature, where they are classified according to various criteria. Such criteria were presented below.

**Table 1.** Types of distribution channels

<b>Classification criteria</b>	<b>Types of channels</b>
Number of intermediaries	Direct Indirect
Number of intermediary levels	Short Long
Number of intermediaries	Narrow Broad
Types of flows	Material Transactional
Importance of channels for a producer	Basic Supportive
Nature of relations between participants in a channel	Conventional Integrated <ul style="list-style-type: none"> <li>– Corporate,</li> <li>– Contractual,</li> <li>– Administrative.</li> </ul>

Source: J. Altkom, *Podstawy marketingu*, Instytut marketingu, Kraków 2004, s. 226.

A manufacturer is alone in the direct channel, manufacturer handles the relocation and sales of own goods to final recipients on own expense and risk. Such direct organization of the distribution channel combines two forms of business activity - production and trade, thus it generates capital from the distribution activity.

The majority of contemporary manufacturers employs intermediary services from external companies, so called indirect channels, in order to reach final customers with own goods. The usefulness of an intermediary in distribution channels depends on demand for such intermediary's activity, from the side of a preceding and following link. Manufacturer exploits the intermediary services, when manufacturer's direct sales generates poor financial results, when compared to the intermediary services employed.

**Table 2.** Properties of direct and indirect distribution channels.

Feature	Distribution channel	
	Direct	Indirect
Control over the distribution channel	Manufacturer	Distributor
Strategy	Manufacturer's	Distributor's
Manufacturer's costs	High	Low
Cash flow	Short turnover time	Longer turnover time
Stiffness of rules	Small	Great
Assortment	Narrow, own	Broad, from many
Product	Opportunity for own special requests	manufacturers
Price	Contract with a customer	Depends on a distributor's strategy
Information feedback	High	Low
Promotion and motivation	User's	Distributor's

One modern distribution form is recognized as electronic channels that recently undergo rapid development. They are formed with means of entities combined in the scope of the employed IT network, used for the information flow purposes, making negotiations, concluding purchase and sales contracts, placing orders, making payments as well as flow of goods. E-channels are characterised with great elasticity, when compared to traditional distribution channels. Various computer systems, software and the related technologies are the opportunity for making e-channels also oriented on an one-off transaction, that are pursued in short period of time between partners offering the best conditions in a particular moment. Flows are performed in e-channels in two dimensions, namely electronic and physical dimensions. Such division depends on the sold product and consumers with their technological capabilities.

Intermediaries in a distribution channel between the manufacturer and a final customer for goods form the level in the channel. With regard to the number of levels, short and long distribution channels can be discerned. Short channels are called zero-level channels, in which producers sell own goods independently to final customers, as well as there are single-level channels, in which retailers exist between manufacturers and customers. Whereas, long channels have greater number of intermediary levels, namely types of intermediaries, who perform functions related with relocation of goods and ownership rights from the manufacturer to final customers. Another channel's feature is width. It is described with number of units that exist on particular channel levels. Depending on such feature, we can discern broad and narrow channels. Narrow channels are channels with small number of intermediaries on particular channel levels. Whereas, in broad channels the goods are offered for sales with means of the great, as great as possible, number of intermediaries who operate on the respective channel level. The selective, intensive or exclusive distribution strategy adopted by a company plays decisive role for channel width.

With regard to various flow routes for various currents in a distribution channel, we can discern transactional and material channels. Transactional channels are created by participants who conclude purchase and sales transactions or help in conclusion such channels. Whereas, material channels are created by entities performing the activities related with the physical relocation of goods on the route from a manufacturer to a final recipient. With regard to the form and scope of cooperation among participants, we can discern conventional and vertical channels. Participants in the vertical channels make contacts with each other oriented on the performance of a particular purchase and sales transaction. In vertical channels, the activity of companies is controlled and coordinated on various channel levels, shaping the connections and cooperation of particular levels.

### **3. DISTRIBUTION STRATEGY AS THE ELEMENT OF COMPANY'S MARKETING**

Distribution strategy is the important element in the company's marketing strategy, that is related with the strategy of prices, product and promotion. The selection of distribution strategy requires the respective knowledge of external conditions arising from environment, in which a company operates, as well as from internal conditions.

Three following factors are included in the analysis of external environment:

- target market;
- competition;
- economic factors (customs or tax policy);
- legal factors;
- technological factors;

With regard to the intensity level of distribution we can discern: intensive, selective and exclusive distribution.

Intensive distribution is based on offering goods in all possible points of sales on a particular level/levels of a channel, within the selected market. The selective distribution is based on offering goods at particular territory with means of limited number of trade intermediaries, selected according to particular criteria and obliged for particular trade and

promotional activities. Whereas, the exclusive distribution is based on offering goods with means of one intermediary from a particular set, who operates on the respective channel level within the spatially isolated market.

The exclusive distribution strategy is in contradiction to intensive distribution strategy. It is characterised with purposeful selection and granting the particular rights for exclusive sales to an intermediary on a particular market territory. It provides high standard of sales services provided to a manufacturer, complete sales control, as well as chances for competitive advantage and establishing a good company's image.

Current relations between the manufacturer and an intermediary are shaped in transactional way, based on the purchase and sales contract, in the scope of which both parties pursue the maximization of profit. The increasing development of integration strategy is a pattern. The integration strategy in distribution exists in two forms: contractual integration and corporate integration. The basis for contractual integration are various types of contracts, that are most often unnamed, but purposefully drawn up during the negotiations between the parties. Whereas, corporate integration strategy is based on the acquisition of ownership rights by a manufacturer for intermediary companies operating on various levels of distribution channel.

#### **4. CONCLUSIONS**

Currently, logistics is a very important element, when the competitiveness of companies is regarded. Distribution logistics is the process of planning, organizing and controlling the flow of products, from the production or sales place, as well as the related information. The role of distribution system results from the general logistics principle, that means the constant acceleration of all processes on all distribution stages, but with preserved quality of customer service and supplies. The assessment of the distribution system is not simple, because such assessment comprises of many factors. Distribution system requires constant observation of flows and operations, that are performed by participants in a channel.

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