

## DISTRIBUTION CHANNELS AND THEIR ROLES IN THE ENTERPRISE

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**Abstract:** The paper discusses the distribution channels, their structural and functional classification and the importance of intermediaries in the flow of goods between the manufacturer and purchaser. Pointed to the rapidly growing share of electronic distribution channels and the conditions of their market dominance in the medium term.

**Keywords:** logistic management, distribution channels, e-commerce

### Introduction

The realisation process of a marketing strategy of a company lies not only in achieving specific production goals and a proper communication with recipients during realization of the promotion phase. Its constant and very important factor is to provide finished products to customers. A basic condition for achieving goals set out in the trade is that the finished product meets the needs of the consumer, in particular it has a suitable form and it is delivered at the right time and place. To be compliant with this requirement means to take action and implement the elements included in the marketing-mix, which is the distribution of goods — one of the processes of market support, containing within itself all the decisions and actions related to the manufacturer's communication with end customers. Intermediaries create marketing distribution channel.

Distribution channels can be also defined as marketing channels or market channels. A distribution channel is a group of depend on each other organisation units, which are taking part in process of flow of product or services from producers to buyers.

The functional aspect of the distribution channel is seen as a way to connecting and ordering of agencies and intermediaries through which one or more streams are flowing.[3, p.408]

Most important streams in distribution channels are:

- physical movement of completed products or services;
- actual transfer of ownership laws among participants of the channel;
- information about potential buyers, competition and demand;
- promotion;
- payments of invoices;
- negotiations;
- realisation of orders;
- risk taking;

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- shipping, transportation and storage of goods.

Some of these streams (the ownership rights, promotion, negotiation, risk, product) flow to buyers, other (market information, payments, negotiations and contracts) to the producers. All of these flows are inevitable and the responsibility for each of them lies upon at least one organizational unit.

### **Classification of distribution channels**

Company decisions regarding the type of distribution channel are considered in two structural systems: vertical and horizontal.

In the vertical structure there are a number of dependencies between companies. Several decisions about the quantities of different levels of a flow streams are made here. The horizontal structure determines the number and type of intermediaries on specific levels.

In distribution channel a number of intermediaries is important who participate in the transfer of goods and property rights to it from the producer to the final client. Each of these participants becomes another level in the distribution channel and their number determines the length of the channel.

The vertical structure of distribution channels and its length is defined for example by following determinants:

- expectations of final customer;
- features of a product;
- the financial capacity of an enterprise that is making the decision;
- organizational and legal conditions for distribution. [6, p.35]

An enterprise, which is cooperating of intermediaries, faces a choice of one of the three systems with different levels of surveillance powers to the channel by the company:

- corporate,
- contract,
- conventional.

A corporate system is being used by organizational units during phases of creation and development. In this case the producer is an owner of the channel system, which relies only on him. It is a vertically-oriented system in which the producer is obliged to provide financial and human capital.

A contract system is a quite new concept in Poland. Its most popular form is called franchises, which is one of the fastest growing sectors of distribution. It can be divided into:

- product trade-name franchising;
- business format franchising. [1, p.159]

The first approach is mostly focused on distribution of a product where a given company is given rights to sale goods or services in a particular segment of a market using trade name (eg. car dealers).

The second type of franchising is based on the right to offer products under contract on a particular market with proper commercial forms, including sales, service and quality control. In this system all the time franchiser has control over the entire distribution channel.

The last option is the most popular in Poland — conventional system which is based on the foundation of working with independent intermediaries (wholesalers, retailers, agents, brokers). The most important advantage, that determines the choice of this system, is specialization of producers and dealers in specific sectors of a market chain. In this system important becomes the development of a third contractor (third party operations), which are companies that are specialized in a distribution, while offering a range of services and trade support for other participants in the channel. However in this case a company must be prepared for losing control over distribution channel.

Among vertically integrated channels administrated channel can be also distinguished. In this solution all organizational units that create the channel remain independent in their operation, however one specific company is keeping regulatory function for all units.

Channels can be also divided according to deals where people are assigned in accordance to their responsibility of buy-sell deals and product channels that are formed by members involved in the movement of products from producers to end-users. Other channels that needs to be mentioned are the negotiation channel, the flow of property rights channel, the channel of physical movement of goods and the cash flow channel. [2, p.27]

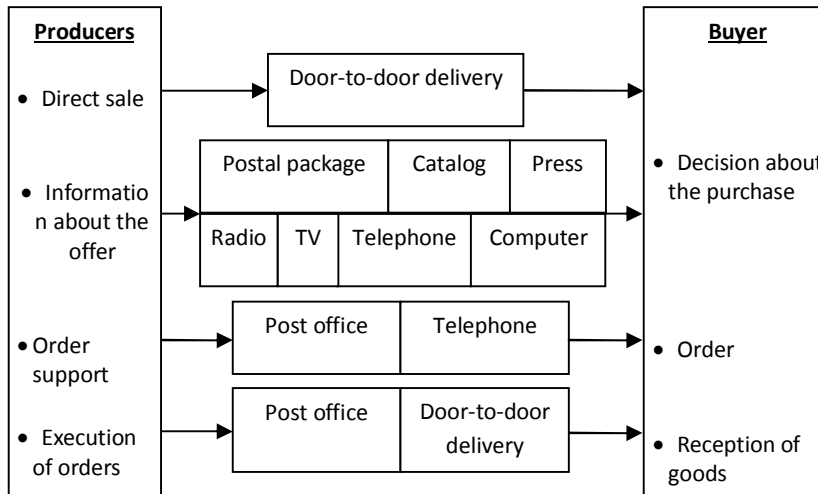
Channel width is the number of intermediaries and institutions located in different levels of the channel as a result of a decision on coverage of market with products and services. Channel width depends on the intensity strategy chosen by the company. As a result of this decision marketing channels can be divided into narrow, with a small number of intermediaries or wide in which the products or services are offered by the largest possible number of agents at each level.

A width of a channel depends on many factors. The biggest attention is paid to the characteristics of products, customers behavior associated with relationship and loyalty to the brand. An oversight over chosen channel and marketing strategy is also relevant.

A partition by the type of participants distinguishes direct channels (levelless) and indirect channels.

The direct channel consist of two levels: a producer and final customers. The producer contacts the buyers through their own employees, commercial services or media, without intermediaries. These type of channel is applicable to the commodity market, capital goods, consumer goods, media use and the distribution of services.[5, p.26] This area is still expanding. Manufacturers that are using this kind of channels retain full control over a disposal of products, the level of prices and services.

It provides a fast flow of information about the expectations of customers, which automatically adjusts the offer. As a consequence producers are charged of any distribution costs and the risk of selling at a fairly low penetration capabilities.



**Figure 1. Direct distribution**

*Source: [2, p.31]*

In direct distribution (Fig. 1) there are no intermediaries. Any exchange of information between a producer and a customer is via mail, catalogs, radio, television, press, phone or computer. Orders are made via mail or telephone. The execution of orders is done by mail or order is delivered directly to the client.

Any introduction to the distribution channel of an intermediate cell, regardless of the number of levels, change a direct channel into an indirect channel. Those intermediaries can be a natural or legal persons who take over ownership rights to the product or service from the producer and give them to a final customer.

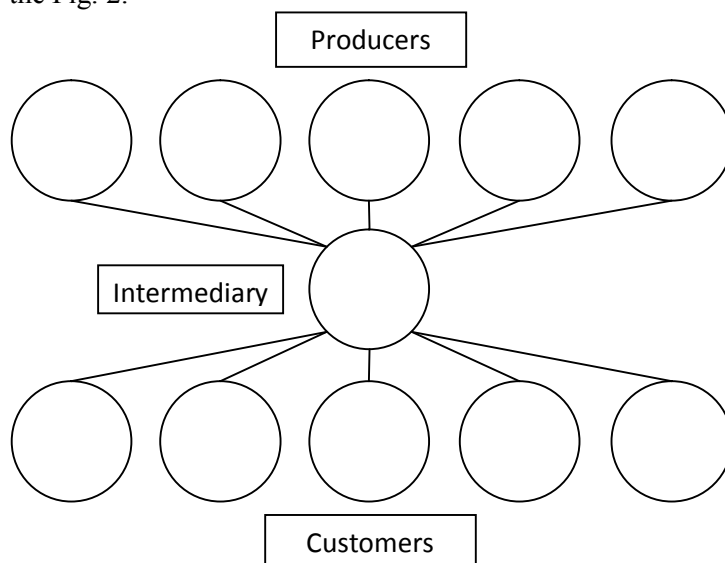
According to their participation in the transfer of ownership rights intermediaries can be divided into dealers and agents. The first of them are wholesalers, retailers and other organizational units that assume ownership of the products. Agents consist of agents and brokers who do not buy products and have no ownership rights to them. They are involved in shifting ownership from the producer to the final purchaser, conducting sale and purchase transactions.

An intermediarie in the distribution channel may be responsible for transactional functions (negotiating contracts, dealing in sale and purchase, transfer of ownership, takeover risk) [2, p.36], logistics functions (procurement, supply, storage, selection, and transportation) and support functions (gathering information about a particular market segment, demand analysis, financing transactions).

This type of channel is primarily used in the consumer elective goods market (narrow and short channels) as well as everyday purchases and services market (short channels). It is being used relatively rarely on the market of industrial goods, in particular with investment products, raw materials and a range of supply goods.

The intermediate distribution must also include network sales (network marketing, network).[2, p.40] This form of selling is being used in Poland by foreign companies selling their products to distributors who recruit more distributors and receive from them appropriate amount of their sales commission.

Placing an intermediary in the distribution channel brings to the manufacturer both benefits and losses. For manufacturers the most important factor is a chance for a greater market penetration, acquisition of new markets and reduction of the distribution costs. It is also important for the manufacturer that he is released from the product adaptation to the expectations of end users (bottling, packing) and from building its own sales network. However there are several disadvantages for this solution like there is a possibility of losing direct control over the channel, not fulfilling responsibilities by the intermediary, extension in the period of payment for products and the danger of all kinds of conflicts in the channel. The relationship between producer and final customer in the intermediate distribution is shown in the Fig. 2.



**Figure 2. Intermediate distribution**

*Source: [1, p.152]*

The choice of distribution channel depends on macroeconomic conditions (the economic situation, the purchasing power and the ability to exchange currency, the number, demography and culture of the population, the population density, the maximum size of the market) [4, p.217], technological trends and law regulations (rules and standards, obligations and prohibitions).

### **Electronic distribution channels**

With the growth of B2C (business-to-consumer) model a new type of intermediary has become available: an electronic distribution channel — the Internet. The

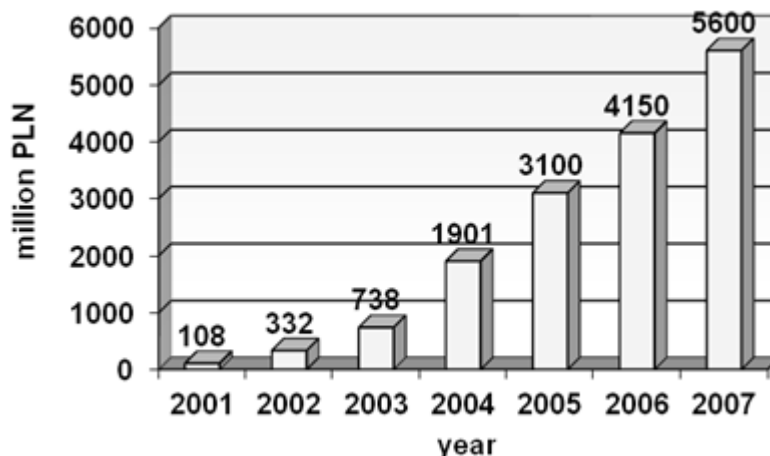
availability of goods through the Internet does not mean physical access to them, but only their purchase. In electronic distribution channels the flow of streams is being realized in two dimensions: electronic and physical. A split of streams between these two dimensions depends on the type of products sold, channel participants and their technological capabilities and resources.[5, p.218]

In the electronic sales following forms of sales can be distinguished:

- B2C (business-to-consumer) — it is a relationship between the company and the final customer; it includes: preparation of offers, preparation and confirmation of orders, payments, realisation of the transaction;
- B2B (business-to-business) — it is a relationship between companies and it includes: preparation of offers, preparation and confirmation of orders, payments, realisation of the transaction;
- B2A (business-to-administration) — it is a relationship between businesses and public (government);
- C2C (consumer-to-consumer) — transactions between consumers.

The growth of an electronic distribution is strengthened by its global reach, reduction of distribution costs and sales, reduction of time and flexibility in data processing. Main disadvantages of this type of distribution are increased costs of transportation of ordered goods and a delayed date of payment.

The increase in e-commerce turnover is caused by the lack of customer satisfaction with traditional forms of sales. Companies increasingly use such forms of selling, because it saves both time and costs, and demonstrate innovation what improve its image. In 2001–2003, customers got more used to the traditional market. The internet does not arose such trust as it is now. Since 2004, e-commerce sales has reatly increased from year to year. These changes over the years are illustrated in Figure 3.



**Figure 3. Sales of internet trade in Poland**

Source: [http://www.sgh.waw.pl/katedry/km/Oferta\\_dydaktyczna/dystrybucja\\_elektroniczna.pdf](http://www.sgh.waw.pl/katedry/km/Oferta_dydaktyczna/dystrybucja_elektroniczna.pdf)

E-commerce is a procedure that uses various types of electronic devices for financial transactions. This trade includes sales of goods or services, acceptance and approval of contracts and support for cashless payment.

EDI (*Electronic Data Interchange*) — the electronic exchange of documents is the process of data exchange between companies in a form of electronic documents according to agreed standards with minimal human intervention. Key benefits from using electronic document exchange are: minimization of time spent and money, reduction of errors (the data are entered from a database, where previously have been reviewed and approved), inventory optimization (using software that monitors storage conditions) and to improvements of a payment process.

### Summary

Best management of distribution channels is one of factors providing the success of products sold by the company in the market. Also a company should not forget about the appropriate upgrading of a product over time to meet the expectations of customers and to be desired by them. Also noteworthy and not to be underestimated is an offered potential by the growth of networks and electronic commerce. It seems that the electronic channel of distribution will be soon one of the most popular forms of distribution channel in Poland, because it reduces expenses associated with the costs of distribution and sales, and if you look from the client perspective it shortens the time of a purchase of a specific product. Electronic distribution channels also provide the company with a high level of computerization in the field of development, which is nowadays of great importance for the position and credibility in the market.

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## KANAŁY DYSTRYBUCJI I ICH FUNKCJE W PRZEDSIĘBIORSTWIE

**Streszczenie** W pracy omówiono kanały dystrybucji, ich klasyfikację strukturalną i funkcjonalną oraz znaczenie pośredników w przepływie dóbr między producentem a nabywcą. Wskazano na szybko rosnący udział elektronicznych kanałów dystrybucji i przesłanki ich dominacji na rynku w perspektywie średniookresowej.

### 其分銷渠道在企業中的角色

**摘要：**本文討論了分銷渠道，它們的結構和功能分類和中介機構的重要性在製造商和購買者之間的貨物流動。指出，快速增長的電子分銷渠道的份額，他們的市場條件的優勢在中期。