

## THE ROLE OF DISTRIBUTION IN CREATING COMPETITIVE ADVANTAGE OF COMPANIES IN SME SECTOR

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**Abstract:** In this framework, the distribution as an important instrument of marketing management in companies is described. The optimal choice of distribution strategy and the role of intermediaries, mainly with reference to SME sector companies are underlined. The choice the most optimal structure of distribution channel is determined not only by factors such as costs, but also client expectations, actions of competitors, strategy of positioning product, number of products in the offer, market absorption, and market segment where the product is sold.

**Key words:** distribution, distribution channel, intermediary, distribution strategies.

One of the most important quality features which distinguishes companies, especially those from small and mid-sized sector, is the implemented management system. The owner makes decisions individually, and is fully responsible for them. Majority of companies in SME sector are one-man enterprises or companies formed by two partners, where usually owners are liable for all liabilities of company up to the value of all their and firm's assets, so they bear the risk of company and personal risk. In small and mid-sized companies it is the owner who creates a social structure [1.] in the company which is most often represented by an autocratic management style, and where created organizational structure is usually linear. This type of structure is usually characterized by a particular hierarchy (one-man management), quick flow of decisions, easiness in discipline, small elasticity of activity, which is caused by rigidity of organization. Another relevant quality feature is financial management. Capital in small and mid-sized companies is created by own funds of the owner (or partners) and supported by the European Union funds or by debt, mainly credits and loans.

Taking into consideration the share in the market [2.] as another important quality criteria which determines small and mid-sized companies, the role of SME sector in satisfying individual needs of customers should be underlined, because to some extent it limits the influence on shaping demand and supply.

Apart from importance of quality criteria for classification of particular business entity to a definable group of companies, in practice people use mainly quantity criteria such as: the number of employees, financial results, the value of assets, and so on. From the point of view of management practice, there is a problem of the role of distribution in creating competitive advantage in small and mid-sized companies.

## The essence of distribution

Distribution is represented by activities associated with offering products on the market in appropriate form, time and place. These activities must correspond with other marketing instruments and change with them. The main role of distribution is to overcome spatial, time and ownership barriers which separate producer from customers [3.]

The main role of distribution is to provide final customer with high quality product on time, in appropriate place, in the most comfortable form, and at attractive price. However, achieving this state is possible only if the producer chooses the distribution channel and the way of physical transfer of products (Figure 1.). The choice of appropriate distribution channel with particular structure enables realization of planned sales volume and strengthens throughput. On the other hand determination of proper organization of physical distribution ensures expected level of service and minimizes costs of distribution.

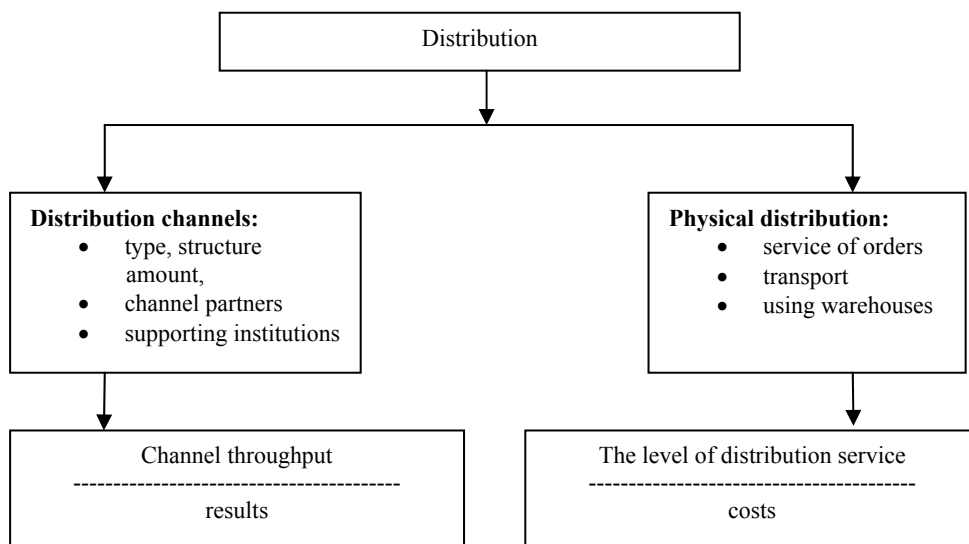


Figure 1. The set of instruments and activities associated with distribution [4., p. 16.]

Apart from passive verification of product market value, distribution together with other elements of marketing mix: product, price, promotion, is designed to satisfy needs of customer and at the same time encourage to buy the offered product.

The main mistake made by companies from small and mid-sized sector in distribution area is that they concentrate activities mainly on product, price and promotion. However the success of a company is possible only when it is easier to buy the product. Therefore, distribution is associated with listening the client and specifying his needs [5.].

## Definition of distribution channels and its classification

On the basis of analysis of literature, distribution channels can be described as a chain of subsequent links (e.g. people) which participate in transferring one or several streams associated with marketing activity [4., p. 25.].

The most important streams which flow in the distribution channel are: promotion, product, ownership right, risk which flow from the producer to the consumer and orders, payments, market information which are transferred from the consumer to the producer. There are also

some two-way streams such as negotiations. All distribution channels are designed to facilitate flow of product to consumer, but with regard to many relevant features are very different, and in consequence there are various structures of channel networks (Table 1.).

Table 1. Criteria of classification and types of distribution channels [6.]

Classification criteria	Types of channel
Types of participants	<ul style="list-style-type: none"> <li>• Direct</li> <li>• indirect</li> </ul>
Number of intermediate levels	<ul style="list-style-type: none"> <li>• short</li> <li>• long</li> </ul>
Number of intermediaries on the same level	<ul style="list-style-type: none"> <li>• narrow</li> <li>• wide</li> </ul>
Type of flows	<ul style="list-style-type: none"> <li>• transaction</li> <li>• material</li> </ul>
The scope of cooperation between channel participants	<ul style="list-style-type: none"> <li>• conventional</li> <li>• vertically integrated               <ul style="list-style-type: none"> <li>○ integrated on the whole length</li> <li>○ party integrated on certain segments</li> </ul> </li> </ul>
The way of coordination of activities of channel participants	<ul style="list-style-type: none"> <li>• administrated</li> <li>• contractual</li> <li>• corporation</li> </ul>
The ownership right of channel participants with regard to entities which represent the particular channel	<ul style="list-style-type: none"> <li>• owned</li> <li>• party owned</li> <li>• others</li> </ul>

The most important types of channels include: indirect and direct channels.

In a direct channel we have direct connections of producer with consumer. In this channel there are no intermediaries. The main advantages include:

- Quick flow of information.
- Full control on the flow of product, margins.
- Taking over by producers the trading margin.
- Possibility of fast reaction on changes of demand.
- Possibility of implementing low prices.

On the other hand in an indirect channel there are other intermediaries between producer and consumer such as wholesalers.

The main advantages are:

- Lower costs of distribution.
- Product can be supplied on a larger geographical area.
- A broader range of services for consumer with various expectations can be provided.

## The meaning of decisions made in association with choosing distribution channel

Decisions about choosing appropriate distribution channel are one of the most important decisions made by managers in the company.

Appropriate structure of distribution channel is important for those companies, which are entering the market or think about broadening the area of sales and increase the level of intensity, which is usually connected with lengthening the distribution channel. Contrary situation is present in the case when the level of intensity is lowered – the distribution channel is shortened. All these types of structures are associated with various costs. Therefore, the task for companies, mainly small and mid-sized is to create such distribution channel which will significantly influence the increase of sales and limit costs beared because of inappropriate choice of distribution channels.

The choice of optimal structure of distribution channel is determined not only by such factors, as costs but also by client expectations, activities of competitors, strategy of product positioning, number of product in the offer, market absorption, segment of the market for particular product. All decisions made with regard to the structure of distribution channel represent a reference point for choosing a reliable intermediary and starting cooperation with him.

## Intermediaries in distribution channel

Except of producer and consumer, there are also intermediary companies, which participate in creating the structure of distribution channel. They have a particular function in the channel to fulfill. The support of intermediary in a distribution channel is used most often by companies which cannot sell products by themselves. Although a direct contact with client helps to set prices, participation of intermediary assures that the product will be provided more efficiently with the help of contacts, experience, specialization or lower costs beared by the intermediary.

For companies from small and mid-sized sector, use of direct contact with client is more effective than use of intermediary's help in distribution channel (mainly in services sector). On the other hand, for small and mid-sized companies, using intermediary services reduce the part of tasks, which would be done by these companies if they resign from help of intermediaries.

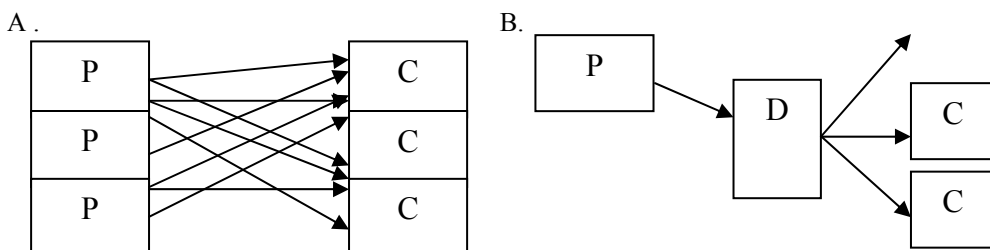


Figure 2. Distribution channels A- without intermediary; B – with intermediary [7.]

Cooperation of producer with consumer without any intermediaries must be based on establishing more relations (Figure 2A), on the other hand the help of intermediary in contacts between the producer and consumer enables to limit these relations and in consequence to enrich the sales of producer's product. (Figure 2B).

## Distribution strategies

Distribution strategy is related with determining long-term goals and concepts of activities in response to expected changes in environment and organization of cooperation with partners, which decide to distribute the company's product on the market and offer it for sale [8.]. Strategy of intense distribution – the producer aims at providing the broadest availability of products on the market. Usually, it requires the help of many intermediaries, i.e. different distribution channels. These channels should be long and broad. Such strategies are most often used on the European Union market.

Selective distribution strategy is used by companies which offer selectable rather than goods which are bought. The number of sale links and distribution channels is lower. Distribution links are most often selected with regard to quality of services, because they must fulfill higher than usually criteria associated with sale of particular goods.

Exclusive distribution strategy – concerns goods of episodic purchase. The producer usually gives the right to sell its products only to one intermediary on the particular area. Thanks to that, it has control over the quality of distribution of product [8.].

It is often a case that distributors themselves cooperate in order to supplement missing links in distribution channel. Competing companies cooperate in order to improve the quality of services.

Producer who wants to sell its product may use one of two strategies which are connected with a flow of promotion streams in distributions channels.

Pushing strategy – marketing effort is directed on establishing incentives for wholesalers and retailers, which encourage them to work with the company, offer its product brands in own assortment, maintain low inventory, and appropriately expose products in shops. The aim is to achieve voluntary cooperation by offering attractive trade conditions, i.e. higher margins, quantity discounts, promotion funds, samples and product models to use in shops. The key element of promotion-mix used in this strategy is personal sale and personal communication. The role of sale representatives and sale specialists in this case is especially important.

Attracting strategy – the producer concentrates its communications activities on final consumers and omits intermediaries. It aims at creating demand for products of the company among potential clients which belong to target market segment. The aim of this strategy is to create among final purchasers large demand and loyalty towards the brand in order to create a situation, in which the interest of clients force intermediaries to sell these brands. The producer concentrates its activities and funds on advertisement in media, promotion addressed to consumers and direct marketing. The strategic goal of producers is to neutralize bargaining power of intermediaries, which can block the access to market [9.].

Companies can adopt different rules of dealing with suppliers. Adopted rules can be formed in a marketing strategy. This approach includes the choice of:

- suppliers, that is the number and features which will be typical for these suppliers,
- methods of influencing suppliers, with which the company wants to establish and maintain relationship.

These strategies can be used both by companies which comply with marketing principles and by firms which don't use them [10.]. "If companies respect the rules of marketing, then their strategies towards suppliers must be subordinated to strategies towards final consumers. It results from adopted in such situation market orientation and requirement to conform all activities to preferences and expectations of consumers. Strategy towards suppliers cannot be therefore shaped beyond the strategy towards final customers, but it becomes an integral part of it. This way it becomes also an element of marketing strategy of a company." [...] "The strategy of company towards suppliers should strengthen the marketing strategy of company.

If this is the case, it will be used in the process of achieving goals by company in the area of relations with final customers.

The company which implements this strategy towards suppliers looks for such suppliers of productive factors that will enable production of goods of high quality and price acceptable for target market of the company.

If final buyers expect from the company high quality products, one of criteria of choosing suppliers is the quality of offered productive factors. On the other hand if final buyers concentrate on the price of goods, the strategy is focused on reducing the costs of purchase.” [10.]

“The strategy towards intermediaries can be described as a strategy of company towards intermediaries in sale of products to final customers.

This course of action embraces:

- choosing the number and types of intermediaries,
- choosing ways of influencing particular intermediaries indicated by the company.

If the company respects marketing principles, strategies towards intermediaries cannot be autonomous strategies, but actually they should be part of final strategies towards customers and support them.

Intermediaries operate in the distribution area, which is one of marketing elements which influence on effectiveness of its impact on target market. The strategy of intermediaries should integrate activities in distribution sphere with other marketing instruments used by companies on the market. Intermediaries co-create marketing strategy of the company, therefore it should employ such strategy towards intermediaries which favours internal integration of marketing strategy and protects it against disintegration.

Not all elements of strategy used by intermediaries must be subordinated to influencing final customers. Some of actions can support basic goals of company, even if they are not directly associated with influencing target market (e.g. lowering costs of cooperation with intermediaries, achieved by better management of information flow, in a way compliant with assumed way of affecting final customers and with maintaining the same level of prices, which can contribute to maximizing profit).” [10.]

## Conclusion

The use of distribution in SME sector companies does not give any unambiguous conclusion. Distribution channels and applied (or not) distribution strategies depend not only on the business profile of the company, but also on the size of firm. Because of limited product offer micro, small and mid-sized companies must make a choice of distribution channel, which will be adequate to needs, i.e. will take into consideration competitors, market position and specific situation of target segment. In micro and small companies, direct channel of distribution which will allow to limit costs and increase elasticity will be most effective. However implementation of distribution strategy in the company is not determined by the size of company, but rather by applied (or not) concept of marketing management.

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