CHOICE FACTORS OF DISTRIBUTION CHANNELS

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Introduction

Distribution channels mark the path of goods from manufacturers to consumers, and physical distribution of the delivery of goods mode, warehousing and storage of goods. Specifically, on its way from production to consumption, goods are moving through certain channels of distribution. The difference between the distribution channel, which consists of organizations-participants in the trade of goods and physical distribution, which consists of the physical flows of goods, can show functional flow characteristics and retention points, which within the channels have the characteristics of institutions, enterprises, consumers, etc., while the physical distribution points are characterized by their functional characteristics.

In today's trading very little direct trade is used, but between the end points of reproduction is a series of intermediaries as the spatial and temporal dimension of linking the sphere of production and consumption spheres. The essence of this is to reduce the number of transactions that increase the cost of traffic distribution. Therefore, a significant concentration of the small number of agents that communicates with manufacturers which goods send to one center and the customers who buy goods in one place. From the above it follows that more distribution channels are concentrated in the flows of goods, which in further concentration turn in a large flow of traffic directed at a specific center. In these facilities are concentrated flow channels and focused on manufacturing consumer goods (raw materials, reproduction materials and means of production) and final consumption (daily consumption and the consumption of durable goods).

1 Distribution channels

Distribution channel includes a set of institutions that perform those activities (functions) used in the movement of products and its ownership from production to consumption. Distribution channels and marketing channels are now considered as a set of interdependent institutions, connected by common business interests: to facilitate the transfer and ownership of goods from producer to final consumer - the customer. It can also be said that the distribution channels (routes sales, sales
channels) are links between production and consumption, which is a coordinated by set of actions and that moves goods from producers to consumers.

That a mediator, or links in the chain of distribution could be held, he must be able to organize the flows of goods wholly or partially so, to be more effective than alternatives, because otherwise the customer will not choose him as a supplier. This means that the costs of mediation shall be lower than the costs that would arise if the producer would make the distribution himself. Developed markets have developed systems of intermediaries, and their economic advantages in specialization, concentration and dispersion of flow of goods. Decisions on marketing channels are among the most important corporate decisions. Selected channels significantly affect all other marketing decisions, as to who will sell products of a company depends on pricing policy, selection of vendors, choice of modes of propagation, etc. Besides, these are long-term decisions, because the alternatives can not be established in short term.

2 Modeling and creating distribution channels

Contemporary flows of goods are all less likely to use direct sales from manufacturers to the final consumer. Between the end points of social reproduction - the production and consumption more agents are set, and their mediating function is called by different names. The main reasons for the existence of intermediary organizations lie in the necessity of spatial and temporal linking all spheres of production away from the sphere of consumption, the possibility of business specialization and minimization of traffic transactions number, as shown in Figure 1.
The sustainability of individual agents, or links in the distribution chain depend on its ability to organize the flows of goods (wholly or partially) to exceed the alternative, or when costs are lower than the brokerage cost incurred by the manufacturer when he performs the distribution [1].

The system of mediators is higher in the developed market and the economic advantage of a specialist intermediary proceeds from the possibility of higher concentration, then the necessary dispersion of flows of goods.

The function of collecting, sorting and distribution of products someone needs to flutter on one or more levels in the distribution system. Will it be the manufacturer himself or a specialized agent depends on various factors, among which is the most important stage of development of productive forces. It refers to the division of labor and specialization in general as well as in trade in goods and services. Championship in performing traffic functions will have someone who has done it most efficiently. Depending on a target customers distribution channels will be developed.

Factors that may affect the choice of distribution channels are referred in the literature by different authors and by a number of different divisions. In order to simplify the confusion caused by a multitude of factors defined by different authors as the most important determinants in the choice of a distribution system, the following factors are imposed:

- product characteristics,
- the characteristics of consumers,
- the characteristics of an intermediary, or market,
- characteristics of the producers and the environment in which it operates.

[2]

3 Factors of distribution channels

The choice of distribution channels has a strategic character and not only logistical tasks, although, as already stated, is closely associated with the logistics of distribution. The direct distribution channel will be selected in any of these conditions:

- a limited number of customers,
- a strong spatial concentration of customers,
- great need for an explanation of products when shopping,
- technically complex products,
- a great need for customer service,
- a constant demand.

For the choice of distribution channels are decisive, above all, marketing objectives bidders. Thus, for example, when dealing with large companies that offer a technically complex products, will choose the direct distribution channel, using its own regional subsidiary, while small companies use trained agents. The reasons for these procedures may be insufficient for activation of store that solves customer problems with such products.

But apart from marketing goals bidders in the selection of distribution channels have a role and objectives of customer acquisition policy. A substantial number of customers with high needs turn directly to the manufacturer. In this connection it should be noted that the amount of expenses is not a single decisive criterion in deciding for or against direct sales.

Indirect sales are still represented in some professions, despite the trend towards direct sales. This is the case particularly in meeting demand, which spreads over a large area and which refers to products that will be used, or the mass consumer goods.
In addition, indirect sales will be used in those companies that have not been able to run effective marketing.

The advantages of indirect sales:

- low cost of external service
- keeping low storage costs
- lower cost of financing
- low bonding capital
- lower costs of running the sale,
- lower cost of customer service when serving customers over trade,
- lower management costs,
- a high geographic presence of the product.

Disadvantages of indirect sales are that the manufacturer does not need to invest in instruments that affect the final consumer.

HC Weise [3] states the following instruments:

- fixing prices by the price of final consumption,
- service and quality for the customer
- service delivery
- sales efforts in respect to the final consumer
- commercial advertising (of coverage),
- the activities of acquiring customers
- a form of serving.

In any case, the decision to direct or indirect sale or for a combination of both, lead to consequences for logistics regarding:

- the procurement
- the size of your order
- the size and equipment storage
- the storage movement
- the shipments movement.

3.1 Factors of distribution channel in terms of the manufacturer

Using the direct distribution channel for manufacturers mean stock concentration for finished products in manufacturing (factory), and vice versa, the use of indirect channels implies the decentralization of these stocks in a network of regional warehouses (logistics and distribution centers). The choice of physical distribution channels is caused by the decision of centralization or decentralization of inventories.
of finished products. When making such strategic decisions producers must consider the advantages and disadvantages of both alternatives.

The nature and characteristics of demand are the next important factor in distribution channels choices by the manufacturer. Products with a high replacement and low brand loyalty factor, require quick delivery to the place, which leads to the decentralization of inventories and their approaches to the place of consumption. Therefore, such products prefer indirect distribution channels. Conversely, products that have a low change, consumer loyalty to the brands, as well as the willingness of consumers to wait to purchase a product or to look elsewhere, allow the centralization of stocks, because delivery can be made fast enough and that the consumer does not lose. These products prefer direct distribution channels.

Frequency of purchase and speed of craft products is also a significant factor in the choice of the distribution channels. Products with high prevalence of buying and fast craft as a rule require decentralized inventories, which allow fast delivery to retail outlets. These products are short time to stay in stock, and regardless of the high daily cost of holding inventories, these costs in the total amount remain within acceptable limits. Conversely, products with a slow twist, which on average spend more time on inventory, cost-effectively stored in a central repository and provide greater opportunities for consolidation in the truck (wagon) shipments.

The vertical structure of distribution channels depends on the number, form and spatial distribution of the final retail outlets, or consumers. To supply a small number of large, territorially dispersed consumers, producers rational choices are direct channels of distribution. Conversely, a large number of small consumers, concentrated in certain territorial aspects, preference is given to the use of indirect distribution channels. Delivery of small shipments to multiple end points of sale, direct from the factory, or through direct channels, are possible only when the outlets are located at short distances from the point of production or if it comes to local market. At slightly larger distances, such deliveries are possible if the so-called Transport breaking points are secured, ie the points where the truck (wagon) items, which range from spatially dispersed production facilities (factories) of the same manufacturer and consolidate the mixed shipments continue the path to the destination.

3.2 Factors of distribution channel in terms of retail

The choice of distribution channels of retail businesses is based on the evaluation of the advantages and disadvantages of centralization of procurement and inventory, compared to a decentralized system of direct supply retail outlets. It should be noted that with all the above, the indisputable benefits, there is considerable variation in the use of centralized delivery of the retail and supermarket chains. Part of these variations
can be explained by differences that co-exist in the distribution of some commodity
groups.

The nature and characteristics for certain products demands, as well as the speed
of turnover of individual products in retail, are certainly important factors in choice of
distribution channels, because the advantages and disadvantages of centralized
delivery manifest different intensities in certain types of products. Total share of
orders passing through the central warehouse is the result of policies that define the
retail business for pre-order a number of different classes of products. For some
classes of products centralization of delivery is more suitable than others, and the
relative importance of such delivery is caused by the demand characteristics and the
relative contribution to total turnover of the observed product companies. Some
products are typical of the centralized delivery, such as for example, products that
come from imports, which produce that the observed systems give it their own brand,
etc.

Decisions on the steering flow of goods through the logistics and distribution
centers is based on various criteria, such as: product value, turnover, perishability,
suitability for handling, the amount of discount that the supplier provides for truck
(wagon) deliveries, etc. In addition, the variations depend from other factors, in the
literature as essential states the following:

- the degree of vertical integration in the systems of retailing
- the number and size of retail outlets
- the territorial distribution of retail outlets,
- density (concentration) sales
- the nature of growth and development ,
- the communal expenses.

A higher degree of vertical integration of business functions in large retail
systems, particularly procurement functions and functions that make up a distribution
system, is an important factor that determines the centralization of the delivery
(supply) retail stores. It can even be said that the centralization of procurement
involves the centralization of stock and deliveries over the logistics and distribution
centers, and vice versa. Nevertheless, at the same level of vertical integration of these
business functions, some retail companies differ in the willingness to invest capital in
developing its own distribution system.

The number and size of retail stores in businesses affects whether it will
introduce a central warehouse (for logistics and distribution center). Companies
engaged in sales over a large number of smaller stores have more reason to introduce a
centralized system of delivery, from those whose sales are concentrated in a smaller number of large retail outlets, able to receive truck deliveries directly from suppliers.

Spatial distribution and degree of spatial concentration of sales are also an important factor in usage of certain types of distribution channels by retail companies. Rule applies to the greater dispersion of distribution of retail outlets and a lower degree of concentration of traffic, the lower level of the delivery of logistics and distribution centers centralization. Simply, the large spatial dispersion of retail establishments, it means a great distance, the higher costs of delivery, realized through the central warehouse. When it is considered that the upper limit of distance selling the building to the central warehouse, which is done through the supply, determined by the ability to perform daily supply vehicles for delivery.

**Conclusion**

The role of intermediary-carrier of distribution changed over time. With the advent of marketing occurred a need for coordinated performance of manufacturers with other holders of the distribution system, because a starting point for marketers is the need of consumers (in contrast to earlier periods in which the central problem of society was rationalability of production and distribution of goods already produced). Therefore, the importance of research and distribution channels of their choice increased. Specifically, now there is a practice to harmonize discrepancies production and consumption – as a main task of commodity distribution - carried out in advance, even before the start of commodity production (market demand directs the production). These processes, based on marketing approach, show increased relationship of all participants in the vertical marketing. Distribution system in a developed market economy operates on the basis of competition and conflict, and cooperative relations. These relations are reflection of the achieved level of distribution system development. Therefore, the systematic setting distribution channel exceeds a clean exchange between participants in the distribution channels.

**Literature**

Summary

Contemporary flows of goods are all less likely used in direct sales from manufacturers to the final consumer goods. Between the end points of social reproduction - the production and consumption more agents are set, and their mediating function is called by different names. The choice of distribution channels has a strategic character and not only logistical tasks, although it is closely associated with the distribution logistics. The article explains the distribution channels and defines factors of channel distribution in terms of manufacturers and the retail aspect.

Keywords

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