THE ROLE OF DISTRIBUTION IN MARKETING OF AGRICULTURAL AND FOOD PRODUCTS

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ABSTRACT
Distribution is a basic activity in the marketing of goods and services. It has been a core element of marketing theory right from the beginning. Indeed, one of the first scientific papers on marketing was entitled "Some problems in market distribution" (Shaw, 1912). Distribution has become a marketing activity, which is integrated in a total marketing plan. It is concerned, among other things, with the choice of a marketing channel, logistical planning, and relationships with clients. In this paper the distribution of agricultural and food products, both basic characteristics and evolution, is analysed. Attention will be paid to the role of wholesale and retail companies in agro-food marketing.

KEY WORDS
distribution, distribution functions, transport, wholesale, retail

INTRODUCTION

Agro-food marketing refers to buying and selling, the economic incentive structure, and the goods handling system for food, from the point of production through processing and distribution to the final sales to consumers. This economic sector is not always treated separately from other sectors. However, there are some unique economic and policy features of the agro-food sector that receive special attention by governments and business and therefore require special expertise. These special features include:

1. All people require a continuous supply of food
2. Most food products and commodities are perishable
3. If improperly handled, food can cause human diseases
4. The food sector has a specialized and ‘big business’ distributor
5. In high-income countries, the food sector has a high level of product differentiation in relation to other consumer products industries.

Frequently, agro-food marketing has been a fundamental threshold in economic development. Developing countries must make major changes (involving significant improvements in the productivity of resources) in agro-food marketing to break away from a dependence upon low-income subsistence agriculture. The scope of agro-food marketing is greatly increased as economic development and consumer income rise. In developing countries, marketing activities may represent only 10-15 % of the value of food to the consumer. In higher income countries, food marketing value added frequently accounts for 75 % of the consumer’s food expenditure (Padberg et al., 1997).

MATERIAL AND METHODS

To fulfill the described tasks, there are used the methods of analysis and synthesis of information obtained from either literature, interviews with representatives of relevant subjects.

Approaches to choosing distribution channel structure rely heavily on managerial judgement and heuristics, or rules of thumb. There are, however, variations in the degree of precision of judgmental-heuristics approaches. The qualitative approach is the crudest but, in practice, the most commonly used approach for choosing channel structures. Under this approach the various alternative channel structures that have been generated are evaluated by management

in terms of decision factors that are thought to be important. These may include such factors as short- and long-run cost and profit considerations, channel control issues, long-term growth potentials. Sometimes, however, these decision factors are not stated explicitly, and their relative importance is also not made clear. Nevertheless, an alternative is chosen which, in the opinion of management, best satisfies the various explicit or implicit decision factors (Rosenbloom, 1995).
A more refined version of the straight qualitative approach to choosing among channel alternatives is the *weighted factor score approach.* This approach forces management to structure and quantify its judgements in choosing a channel alternative. The approach consists of four basic steps:

1. The decision factors on which the channel choice will be based must be stated explicitly.
2. Weights are assigned to each of the decision factors in order to reflect their relative importance precisely in percentage terms.
3. Each channel alternative is rated on each of the decision factors on scale of 1 to 10.
4. The overall weighted factor score (the total score) is computed for each channel alternative by multiplying the factor weight by the factor score.

RESULTS

Distribution, as a marketing function, is concerned with adapting supply to demand as far as time and place are concerned. In commodities, such as wheat, distribution can be considered the central marketing activity, whilst in the marketing of branded food products, distribution is a marketing instrument integrated within a marketing policy (Padberg et al., 1997).

Companies specializing in the distribution of food and agricultural products

Distribution functions are either performed by farmers and food companies themselves or are transferred to companies, such as wholesale and retail companies, which specialize in carrying out distribution functions.

Wholesaling

Wholesale companies assemble, regroup and dispatch farm products to the processing industry or to retailers. They are more effective distributors than farmers because of their intimate market knowledge and because they handle large product volumes. However, a wholesaler is not always more efficient in moving goods through marketing channels than farmers or the food industry. In large farms there is less need for wholesalers to assemble farmers' products. For example, there is less need for wholesalers to assemble eggs in a market supplied by poultry farms that have 100 000 laying hens. Wholesale companies can specialize in one product group, region, or in one or more specific functions.
Various market developments influence the wholesale marketing of food and agricultural products, which include:

1. concentration in food industry, retail trade and agriculture;
2. advances in communication technology and logistical procedures;
3. continuous search for better product quality and more service to the final consumer.

As a result various food producers and retail chains abstain from using the services of wholesale companies.
Wholesale companies have responded in different ways to these threats and opportunities. Some wholesalers contract production from farmers or engage in production themselves (backward integration). Others have developed special relationships with retailers, as in wholesaler-sponsored voluntary chains, for example where wholesalers cooperate with independent retailers on the basis of a specific retail formula (forward integration). Another reaction of wholesalers to market developments has been to specialize in specific distribution

functions. Cash and carry wholesalers specialize in keeping a broad assortment but avoid product delivery, credit delivery and giving much advice to clients. They compete on the basis of low prices. Makro, the international wholesale chain, is an example of this.
Truck jobbers specialize in transport, carry a limited assortment and have low overheads. They are low-cost traders characterized by their low prices and they operate in areas such as perishables (fruit, vegetables and flowers). Brokers, who act as intermediaries between producers or country shippers on the one hand and wholesalers/retailers on the other hand, specialize in the functions of exchange and market information. Agents, who sell on behalf of a specific producer, concentrate on selling without taking market risk. Some wholesalers specialize in specific products, like exotic fruits, special cheeses or wine, on specific regions such as Eastern Europe, or in special types of clients such as hotels/restaurants, for example. Others react to current market developments by trying to become/remain strong, full-service wholesalers making use of their superior market knowledge, international relationships with suppliers and buyers, and international logistical networks.

Retailing

Food retailers carry food assortments and offer services, which correspond to the needs of their target group. For instance, supermarkets carry a complete assortment of everyday food products and an assortment of frequently purchased durables in order to serve the general food consumer. Specialty shops carry a narrow and deep assortment of food products, focusing on the specific needs and wants of consumers. Basically, the marketing policies of food retailers and the types of retail shops that result can be classified on the basis of the product assortment. The two assortment dimensions are ‘Broad – Narrow’ and ‘Deep – Shallow’. The first dimension represents the need categories of consumers to be satisfied, the second dimension represents the degree of consumer satisfaction in terms of the quality and variety within that need category. Intermediate positions on these two dimensions result in a great diversity of food shops. For instance, some supermarkets carry a deep assortment in a limited number of departments, such as bread and other produce. Food shopping is not only a necessity but also fun. As a result the atmosphere in the shop has become important in food retailing.
Price and product policies are correlated. ‘Low price’ strategies are based on low purchasing prices, quick inventory turnover and limited service. Discounters and market stalls carry a shallow product assortment and offer limited service. Specialty shops carry a wide assortment of high quality products; offer considerable service and charge high prices. Retail companies using competitive prices reflecting value for money will use sophisticated price policies in order to create a good price image. It is important for a retailer to know whether some product prices are perceived by consumers as indicators of the general price level of the shop. Weekly specials are a tactical instrument used by practically every food retailer. They reinforce ‘low price’ strategies of discounters, support the price image of supermarkets charging ‘average prices’ and mitigate the ‘high price’ image of specialty shops (Záboj, 2001).
Promotion and information by food retailers are very important. Weekly specials are supposed to attract consumers: They also underpin the price image of retail companies. Food stores and supermarkets use daily papers and folders as a medium to promote low prices and weekly specials. National supermarket chains, selling substantial product quantities under own brand, also use national TV advertising in order to build a strong retail image. Progress in Electronic Data Interchange (EDI) will advance the use of electronic shopping. However, up till now communication by computer screen in combination with home delivery has not made a great deal of progress in food retailing.

Table 1: TOP 10 global retailers

Rank	Name of Company	Country of Origin	2004 Retail Sales (US$mil)	2004 Group Income/ (Loss) (US$mil)	Countries of Operation
1.	Wal-Mart Stores Inc.	US	285,222	10,267	Argentina, Brazil, Canada, China, Germany, Mexico, Puerto Rico, S. Korea, UK, US
2.	Carrefour S.A.	France	89,568	2,067	Argentina, Belgium, Brazil, China, Colombia, Czech Rep., Dominican Rep., Egypt, France, French Polynesia, Greece, Guadeloupe, Indonesia, Italy, Japan, Malaysia, Martinique, Mexico, Oman, Poland, Portugal, Qatar, Reunion, Romania, Saudi Arabia, Singapore, Slovakia, S. Korea, Spain, Switzerland, Taiwan, Thailand, Turkey, Tunisia, UAE
3.	The Home Depot Inc.	US	73,094	5,001	US, Canada, Mexico, Puerto Rico, Virgin Islands
4.	Metro AG	Germany	69,781	1,161	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep., Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Moldova, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Switzerland, Turkey, Ukraine, UK, Vietnam
5.	Tesco plc	UK	62,505	2,513	China, Czech Rep., Hungary, Japan, Rep. of Ireland, Malaysia, Poland, Slovakia, S. Korea, Taiwan, Thailand, Turkey, UK
6.	Kroger	US	56,434	(100)	US
7.	Costco Wholesale Corp.	US	47,146	882	Canada, Japan, S. Korea, Mexico, Puerto Rico, Taiwan, UK, US
8.	Target Corp.	US	45,682	3,198	US
9.	Koninklijke Ahold N.V.	Netherlands	44,793	(530)	Czech Rep., Estonia, Latvia, Lithuania, Netherlands, Poland, Slovakia, US
10.	Aldi GmbH & Co. oHG	Germany	42,906	n/a	Australia, Austria, Belgium, Denmark, France, Germany, Luxembourg, Netherlands, Rep. of Ireland, Spain, UK, US

n/a - not available
Source: www.deloitte.com

Distribution as an element of the marketing mix of retail companies includes ***time elements***, like opening hours and mail order/electronic shopping, and ***place of shopping*** such as store location and doorstep delivery. It also includes a great many service elements, such as parking facilities, service at check-outs and the handling of complaints. Some food retailers base their strategy on a specific way of distribution, such as home delivery (mail order houses) or store location (snack bars at railway stations).

Various organizations exist in food retailing. While there are still a large number of small independents, many food retail outlets are members of large chains. Retail chains have attractive features including: low transaction costs and the discounts that result from purchasing large quantities, greater opportunities for labour specialization, better logistical planning, economies of scale in advertising and more effective control mechanism, including comparing the results of different outlets. In fact, food chains have become big business operating at an international scale (see Table 1).

Many food chains have expanded into conglomerates including a diversified group of food chains and other food operations. For example, Metro and Rewe, big German food chains, include both supermarkets, discount stores and department stores in their organization, and Ahold, a large food retail holding in The Netherlands, has, apart from a number of supermarket chains, among others, also chains of liquor stores and drugstores under its control.

Another recent development in Europe is the emergence of alliances of food chains. Examples are Deuro Buying AG, Eurogroup, ERA (European Retail Alliance), AMS (Associated Marketing Services), Bigs, Gedelfi and Interspar. These alliances are set up partly to secure purchasing advantages (Rosenbloom, 1995).

Wholesaler-sponsored voluntary chains are the centrally managed retail organization of one or more wholesalers and a large number of retailers. They are supposed to combine the advantages of corporate food chains (low purchase prices, uniform corporate marketing policy and management) with those of independents - strongly motivated, well informed about and responsive to local conditions (Padberg et al., 1997).

Franchising in retailing implies a contractual relationship between a franchiser (producer or wholesaler) and franchisee (independent retailer). A franchiser authorizes the franchisee to become a member of a well-defined retailing system, which is characterized by specific marketing strategies and specific business planning, for example. A franchiser serves franchisees with his franchise concept, and with his marketing strategy in particular. Franchisees implement the franchise strategy in their outlets. They pay royalties, fees and initial charges to the franchiser for the services offered. The synergy of the franchise operation seems obvious: the independent retailer profits from the capacities, expertise and image of the franchiser and the franchiser can expand his business without having to invest heavily in store locations (Loebl, Lukajová, 2001).

Consumers' cooperatives in retailing were set up in UK by the Rochdale pioneers in 1844 and have become important particularly in some Northern European countries. They were set up to confront the power of retailers who charged high retail prices but have lost their market share in the second half of 20^{th} century. Retailer-sponsored cooperatives have been established in many countries, such as Topco in the USA; Leclerc and Intermarché in France. While retailer-sponsored cooperatives differ from voluntary chains in their organizational set-up – backward versus forward integration – they have similar operational structures and marketing objectives (Padberg et al., 1997).

Implementation of the weighted factor score within distribution decision-making

The firm pursuing production and sale of meat and smoked goods considers a distribution for new product – durable salami with a mustard taste. It can be chosen from four possible alternatives:

I. Distribution through own retail selling units
II. Distribution through transnational retail chains (supermarkets, shopping centres)
III. Distribution by using small independent retail units
IV. Distribution through retail units net (retail co-operative)

When the straight qualitative judgement approach will be used for choosing the 'best' alternative, it is necessary to consider each of the distribution variants in connection with decision factors as follows:

1. Sale control
2. Distribution cost
3. Affect the final sale price
4. Number of potential consumers
5. Affect the cash-flow

Table 2: Weighted factor score approach for alternative I

Factor	Factor weight (A)	Factor score (B)										Rating (A * B)
		1	2	3	4	5	6	7	8	9	10	
1	25 %									**P**		225
2	20 %								**P**			160
3	10 %									**P**		90
4	30 %		**P**									60
5	15 %				**P**							60
Σ	100 %											595

Source: Elaborated by author

Table 3: Weighted factor score approach for alternative II

Factor	Factor weight (A)	Factor score (B)										Rating (A * B)
		1	2	3	4	5	6	7	8	9	10	
1	25 %				**P**							100
2	20 %						**P**					120
3	10 %			4								30
4	30 %									**P**		270
5	15 %							**P**				105
Σ	100 %											625

Source: Elaborated by author

Table 4: Weighted factor score approach for alternative III

Factor	Factor weight (A)	Factor score (B)										Rating (A * B)
		1	2	3	4	5	6	7	8	9	10	
1	25 %						**P**					150
2	20 %				**P**							80
3	10 %							**P**				70
4	30 %				**P**							120
5	15 %					**P**						75
Σ	100 %											495

Source: Elaborated by author

After considering the four alternatives in terms of the decision factors, management decides for choosing distribution alternative, or their combination, that in its judgement is the best one. In case of using of the weighted factor score is necessary assign the weights to each of the decision factors and we have to rate them as well. Then we can rank the distribution

variants from the best one (the highest total score) to the worst one (the lowest total score) from the tables 2 – 5, which indicate the total score for each channel alternatives.
From the results achieved is evident that the best one is alternative II (retail chains). In case of saturation of these customers demand is possible to use an alternative I (own retail selling units) and/or alternative IV (retail co-operatives), which are not so different from alternative II. As the worst distribution variant is alternative III (small independent retail units) because it clearly has the lowest total score.

Table 5: Weighted factor score approach for alternative IV

Factor	Factor weight (A)	Factor score (B)										Rating (A ∗ B)
		1	2	3	4	5	6	7	8	9	10	
1	25 %							**P**				175
2	20 %					**P**						100
3	10 %						**P**					60
4	30 %					**P**						150
5	15 %						**P**					90
Σ	100 %											575

Source: Elaborated by author

DISCUSSION

The figuring is, of course, a highly simplified example. Regardless of how elaborate or the degree of detail involved, however, the basic theme or tenor of all such approaches stresses managerial judgement and rules of thumb about what the costs and revenues of various channel structure alternatives are likely to be. Regardless of which judgmental-heuristic approach is used, large doses of judgement and estimations are virtually unavoidable. For even with the weighted factor score, a large measure of managerial judgement is still needed to come up with the seemingly precise figures. This is not to say that this method is totally subjective. On the contrary, in some cases management's ability to make sharp judgements may be quite high and, if this coupled with good empirical data on costs and revenues, highly satisfactory (though not optimal) channel choice decisions may be made using judgmental-heuristic approaches.
Concentration and market orientation make food retail companies more powerful in the marketing channel of food and agricultural products. It is often argued that retail chains are the captains of food marketing channels. However, various food companies, for example Danone, Heinz, Kraft, Nestlé and Unilever, still have substantial channel power on the basis of strong brands, international market coverage and innovative capacities. Even today many producers and wholesalers of agricultural and food products can make themselves attractive, sometimes even indispensable, partners for food chains by offering high product quality, excellent logistical services and competitive prices.
Distribution is a dynamic field of agro-food marketing. Recent developments in the environment of the agro-food system suggest that distribution will remain a dynamic marketing subject in the future. Amongst others, the following developments seem important in this respect:

1. Societal concern about sustainability will stimulate green logistics, i.e. focusing on energy savings and on reduction of pollution and waste. This concern and overcrowded highways, together with other things, will enhance the use of combined transport, such as road-rail services.

2. Government deregulation and the abolishment of international trade barriers within the context of the World Trade Organization will internationalize agricultural markets and logistical networks even more.
3. Improvements in IT, amongst others the advance of the electronic highway, will improve communication both between businesses (B2B) and between households and businesses (B2C). Consequently the flows of physical goods and the flow of information can better be uncoupled, which is advantageous for logistical efficiency.

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