

# COOPERATION AND TRADE WITH THE MANUFACTURERS IN DISTRIBUTION CHANNELS IN THE MODERN BUSINESS

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***Abstract:** The conditions dictated by global market demanding of a trading company that collaborates with a number of entities in the market, including suppliers, customers, competitors, state, and others. Seen through the lens of value for consumers, lens that represents the hallmark of modern business conditions, particularly important part of cooperation is related to trade-producer relationship. Strong relationships of cooperation in the distribution channel are establishing, which allows the product to come from the manufacturer to the final consumer. Very important trade activity is to transmit to producers experience and information obtained from consumers in relation to goods that are subject to manufacturers business. This is especially true for retail sale, which is in direct contact with consumers. Successful resolution of these contradictions involves the establishment of trade relations of cooperation with producers, but also with consumers. The cooperation between trade and production is particularly efficient in terms of global markets and intense competition. Trade cooperation with manufacturers is perceived through the prism of creating value for consumers. Consumers no longer make choices based on products and services offered to them, but based on values that is better than the competition. Such a value can be provided only with the strong cooperation between the trade and manufacturers.*

***Keywords:** trade, manufacturer, distribution channel, consumer*

## 1. INTRODUCTION

The task of the business enterprise is profit, not only through a comprehensive sale, but primarily by satisfying consumer needs - present to potential consumers and their preferences, recruiting and retaining their goodwill and acquired position. Trade has many instruments available, through which it seeks to provide consumers with real value, namely product range, price, location, services, and sales electronically, which is increasingly gaining in importance. Delivering value to consumers, trade tends to tie them up closely, so consumers could receive the title loyal. Trade is aware of the fact that consumers are its "lifeblood" and that without them there are no sales, profits, or market share.

Place is non-price element of marketing mix. Using non-price elements are used to influence demand without a change of price element, i.e. price. Decisions on the distribution refer

primarily to provide answers to the question -"how to ensure the best possible access to selected products to your customers?". In this regard, it is necessary to decide which distribution channels should be used and which participants in the individual channels, together with their management. These include decisions on the selection of types and locations of shops, transport methods, and levels of inventory that should be kept. The main task of making the distribution is to ensure that products and services are accessible to customers with the right quality at the right time and right place. Distribution channels include wholesale and retail, through which the economic welfare is on its way to customers, than, organizations provide services in the area of transport and other organizations and units whose activities facilitate the movement of economic goods from production to consumption. Manufacturers have to build a mutually effective way to manage relationships with these organizations because they can greatly improve the effectiveness of overall performance in the market.

## **2. THE VALUE FOR CONSUMERS AND THE NECESSITY OF COOPERATION BETWEEN TRADE AND MANUFACTURERS**

One of the basic features of modern business conditions is the concept of value for consumers. This concept becomes dominant theme of business success of companies from 21st century. A 4P marketing (product, price, promotion, and distribution) moves to marketing based on value for consumers whose essence is to provide consumers as much usefulness at the smallest price.

To companies that create maximum value for their consumers a success and progress are ensured, which is reflected in the achievement of maintaining a competitive advantage in the market. Companies that do not provide an adequate value will lead the fight in the market or will disappear. The fact is that successful companies do not dwell upon the simple satisfaction of consumers because they tend to charm them and to like them. Superior value for customers means continually creating business experience that exceeds customer expectations. This concept allows business enterprises an understanding of consumer choice, to identify segments of consumers, increasing competitive options (for example, offering multiple products), to avoid price competition, improve service quality, to strengthen the communication with customers, focus on what is important for customers, building loyalty, improving the success of the brand and developing strong customer relationships.

In order for a trading company to provide consumers with value that will be superior to the competition, there is a need to cooperate with the producers. Manufacturers who create products to meet the needs and demands of consumers and commercial businesses are there to sell these products to consumers, with providing services, comfort, ambiance of stores, locations, electronic sale opportunities, and so on. In addition, trading companies convey the producers to get feedback from consumers on specific products.

Cooperation includes coordinated or harmonized activities with the cooperation of stakeholders to achieve the desired results. The benefits realized in cooperation can neutralize the loss of independence in such relationships. In addition, cooperation often involves a willingness to develop common goals and share resources equally. For example, Procter & Gamble manages the inventory of their products in trade company Wal-Mart and

thus takes the responsibility to decide when Wal-Mart needs a new supply.<sup>1</sup> For something like that, P&G fully assess the Wal-Mart stocks and on that basis make decisions about the delivery. This arrangement is useful for one and the other side. Wal-Mart is less binding because the costs of monitoring and storage of supplies, while P&G has a much larger share of the business Wal-Mart does not have to compete with other suppliers.

### 3. DISTRIBUTION AS AN ELEMENT OF MARKETING MIX

"The primary purpose of marketing is to satisfy human needs providing products to different types of customers, in adequate quantities, at the most appropriate locations, at affordable prices and at a time when customers want to buy them."<sup>2</sup> Bearing in mind the fact that all this is impossible to achieve without physical delivery of products to customers, concept and role distribution is inevitable in the discussions and deliberations of marketing functions and definitions. In order for product to find easier and faster in the consumer's hands, it needs to cross the road consists of mediators. The so-called chain of intermediaries, which is part of the supply products system and services and to facilitate distribution, is indicated in the marketing channel of distribution. It must be noted that during distribution of ownership of the goods can be changed repeatedly, depending on the type and number of participants in the distribution. The manufacturer, as the initial and the consumer as the final point, is always present in the circulation, and therefore this form of distribution channels is the simplest, i.e. the shortest. (Usually occurs appear in service marketing, such as private health facilities, car mechanic services, etc.). Other, more complex, channels include one or more intermediaries. These agents can be individuals or organizations to perform specialized distribution (brokers who take ownership of the goods are called commodity brokers and brokers who do not take ownership of the goods referred to as agents).

In many cases, brokers are independent individuals or organizations that are associated with the manufacturers by way of mutual agreement or treaty. They are not the property of the manufacturer. However, in some cases, producers, such as own retail branches and representative offices or their own shops, may own brokers. It often forms coalitions between agents. The purpose of the coalitions is joint exploitation of opportunities that appeared on the market. The coalition created through negotiation or by creating formal agreements is loosely (conventional distribution channel). In contrast, vertical marketing channel is more formally organized system because the manufacturer or distributor owns the members of the channels. The members of this type of channel are linked by tougher contracts or agreements, such as the franchise agreement, or are integrated and coordinated into a single distribution system.

The elements of the marketing *channels of distribution are physical distribution* of products. Marketing channels are wider and primary element of the distribution system, which includes companies and institutions involved in the negotiation function that traces the path from manufacturer to final customer. Negotiating functions include the purchase, sale, payment, and transfer of ownership of goods, physical possession of the goods, finance, underwriting, and promotion. Members of the marketing channels are only institutions and companies engaged in these functions. The perpetrators, who are not

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<sup>1</sup> Mentzer J.T, Min S., Zacharia, Z.G., "The Nature of Interfirm Partnering in Supply Chain Management", *Journal of Retailing*, Vol.76, Issue 4, 2001., p. 549.

<sup>2</sup> Milenovic B., „Principi marketinga“, Univerzitet „Braca Karic“, Fakultet za trgovinu i bankarstvo, Beograd 2007, p. 307

members of the marketing channel, but the participants in them, perform physical distribution activities (transport, storage, and handling of goods, etc.)

#### **4. COOPERATION IN THE CHANNEL OF DISTRIBUTION**

The cooperation between trade and manufacturers is at its peak through the distribution channel that allows the products to come from producers to consumers. The distribution channel established trade relations of cooperation with manufacturers so that products are available to consumers at the time, place, and in the way, that is the most convenient to them. In this way, trade plays a role mediator or agent. The role of mediator in practice can have agents, brokers, wholesalers, and others. However, here will be taken into consideration only the trade as mediator in the channel of distribution.

Trade is the last stage of distribution channels covering all activities of the movement of products from producers to consumers. Trade acts as an intermediary or mediator between producers and consumers. Mediation, trade performs a number of activities. Buys and sells products from a large number of different manufacturers purchased in large quantities, to be sold to final consumers in limited quantities. The range created from various sources, in large quantities in small. In this way, trade performs sorting process.

The trade communicates with producers and consumers. Inform consumers about the characteristics of products and services, working hours, conditions of sale, and others. It transfers a feedback to producers from consumers regarding their complaints, discontent, which causes the modification of the product by the producer. The trade completes transactions with consumers, and that is necessary to have adequate location, rapid response to customer requests and fulfill orders. In addition, it is possible to provide additional services such as gift-wrapping, delivery, and installation.

The relationship between trade and producers in the channel of distribution can be quite complex. The fact that the trade component of the distribution channels, causing concern for manufacturers exhibiting products in retail stores, services provided to consumers, working hours and responsibility of trade as a business partner.

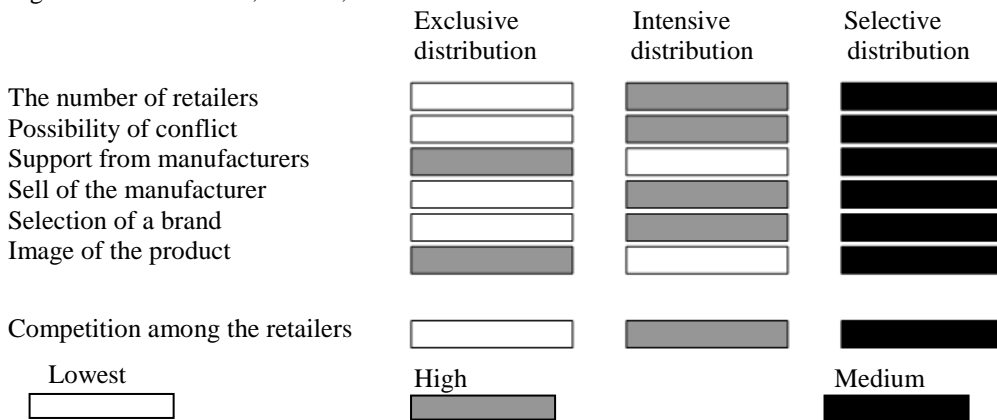
The relationship between trade and producers in the distribution channel can be achieved in three ways, namely through exclusive distribution, selective distribution and intensive distribution. Comparison of exclusive, intensive, and selective distribution can be seen in Figure No. 1

*Exclusive distribution* arrangements provide establishing of arrangements between the producer and one or a few traders, who, in a particular geographic area, will only sell brands of concrete products manufacturer. This kind of arrangement encourages both sides to work together in order to maintain the image of the product, equal division of profits and costs, and joint advertising. From the perspective of trade companies, it is necessary to limit the selection of a brand or brands within specific product lines, which prevents them from collaborating with other producers. From the perspective of the manufacturer, exclusive distribution may limit their sales volume in the long run.

*Intensive distribution* is the arrangement between the manufacturer and as many retailers as possible. In this way, the product sales are maximized and allow merchants to offer more brands and more product variants. In addition, there is strong competition between retailers who sell the same products.

Through *selective distribution*, manufacturers sell their products through moderate number of traders. This distribution method is a combination of exclusive and intensive distribution.

Figure 1: An exclusive, intense, and selective distribution<sup>3</sup>



The practice has shown numerous examples of successful cooperation between trade and producer. One such example is the British production company *Speedo*, which is a leading international company that produces professional swimming suits.<sup>4</sup> Like many of today's companies, Speedo adapts their products to different groups of consumers.

When it comes to product placement, Speedo implemented it in three distinct ways. First, the traditional Speedo products are sold in small independent sports stores. This type of sale is the main support of operations and represents a major distribution channel. However, small sports shops attract a small number of consumers, resulting in a company focused on the propagation of these actions across the country. The interest of company of this kind of sale is manifested in the emphasis on highly qualified and experienced vendors with their high level of retention.

Second, much of the product intended to broad segment of consumers sold in retail shops that are located in the central parts of the city, which in recent years has increased to a level of about 50% of products from Speedo, with the appearance that in the near future increase sales in this way on 80% of the company's products.

Third, Speedo since 1999 started collaboration with *Sports Division*, which is the largest European retail sporting goods company with a portfolio of more than 120 stores. Since the Sports Division is focused only on a few sports brands, it has a remarkable effect on the Speedo Company. Products of the Speedo Company are selling in an effective way, which is reflected in even closer cooperation between trade and producer.

## 5. DEVELOPMENT OF POTENTIAL CHANNELS DISTRIBUTION IN THE FUNCTION OF CREATING VALUE FOR CONSUMERS

It is necessary to create value for consumers through the distribution channels, otherwise will arise situation that will lead to distortion of values, which began to be created by the manufacturer. Consumers are not willing to pay for unnecessary inefficiencies because they

<sup>3</sup> Mentzer J.T, Min S., Zacharia, Z.G., "The Nature of Interfirm Partnering in Supply Chain Management", *Journal of Retailing*, Vol.76, Issue 4, 2001., p. 298

<sup>4</sup> Hollensen S., "Marketing Management – A Relationship Approach", Pearson Education, London, 2003., p.212

are interested in the value they receive, in terms of benefits and costs. Especially focusing on the value of each distribution channel participants should reconsider its role in ensuring the performance of the channel.

It is possible to increase the potential of the channel in the function of creating value for consumers in two key ways:

1. Improvement or increase of current operational capabilities and performance channels, and
2. Switch to a different type of channels with lower costs and better performance

### **5.1. Improvement or increase of operational capability and performance of existing channels**

Improving the performance of existing channels can be achieved in several ways:

- a) *Adjustment to changing market conditions.* In the present conditions of rapid changes in market conditions, channel redesign strategy imposed as an imperative. Markets are changing faster than ever and channels lose the ability to add value, which is created for consumers, unless they adapt to the requirements of the developed market. One example of the continuous adapting to market demands are gas stations, which have passed through the market evolution. Many years ago, gas stations supplement their "package" providing the repairing car service. However, over time, car dealers, in addition to their core activities, began to provide repair and car maintenance, which led to the loss of a portion of profits for gas stations. In order to restore lost profits, successful gas stations replaced car repair service with the introduction of food and beverage sales. There was a redesign of the concept of business to be a mix of products and services adapted to providing better value for consumers. Today's gas stations are going through the farthest evolution adapting to the needs of consumers, and by adding a car wash service, selling fast food, hot drinks and others. Successful companies have a strategy adapted to the channel changes in market conditions and consumer needs.
- b) *Retention of financial channels of capable participants.* In the interests of all participants of distribution channels is that there is a financial stability of the entire channel because the financial instability of one of the participants entails violation of financial stability of the entire channel. For example, financial difficulties of a trading company may be reflected to production company through the dimension of the delay or inability to pay the ordered products from a specific manufacturing enterprise.
- c) *Improving the interface between trade and producer.* Opportunities for improving this interface are numerous and varied. Method that has proven most effective for manufacturers and trading is electronic data interchange (EDI-Electronic Data Interchange), which represents the exchange of data and paper documents electronically without manual intervention, based on standardized messages.<sup>5</sup> This type of communication between business partners offers many advantages, such as reducing the cost of paper documents, reducing errors in information processing, efficient management of goods and cash flow, increase productivity, and others.
- d) *Improvement of channel activity.* Some situations require improving of the activities of existing channels. One such example is the production and sale of modern information technology. In fact, launching the latest generation of computers has led to the many trading companies that until then dealt with the sale

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<sup>5</sup> Cuzovic S., Ivanovic P., „Inovacije u trgovinskom menadzmentu“, Ekonomski fakultet, Nis-Podgorica, 2002, p. 145

of computers, faced with the problem of lack of knowledge of the characteristics of the newest computers. In such situations, the problem is solving by cooperation between producers and commerce. Manufacturers provide assistance to trade in terms of organizing training programs through which the sales staff of a particular trade company are acquainted with achievements of production trends and the latest generation of computers, which is reflected in their efficient sales.

- e) *Improving the interface between trade and consumer.* This interface is conditions improved through electronic commerce. Thus, consumers are able to view and purchase desired products 24 hours a day, 365 days a year.

## **5.2. Switching to a different type of channel with lower costs or higher performance**

If you have exhausted the ways of improving the performance of existing channels, such a solution can serve the transition to a different channel type characterized by lower costs and better performance. Possible alternatives are

- a) *Electronic channels*, which dramatically reduces the cost of servicing customers and facilitate the sending of orders and delivery of the desired product. That is the Internet and electronic commerce systems.
- b) *Common channels* offer exceptional opportunities to increase the potential for creating value for consumers. It is collaboration between two or more manufacturers with a trading company through which end users placing concrete products. This link between producers provides sell at lower costs and reduce business risk for all participants in the channel. Very often, these channels are structured in a way that reduces any conflict between the manufacturer and trade. Finally, these channels have the option of cost sharing between members, with the tendency of their further reduction, which reflects the higher value for end consumers.

## **6. RESUME**

Trade is a service industry that procures goods from many manufacturers, storing it and selling it to consumers at the time, place, and manner that suits them best. We could say that trade is a link that connects manufacturers with consumers. In addition, it solves a number of contradictions between producers and consumers. An important activity of the human experience is transferring to producers and consumers information obtained in connection with products that are subject to manufacturer's business. This is especially true for retail sale, which is in direct contact with consumers. Successful resolution of these contradictions involves the establishment of trade relations of cooperation with producers, but also with consumers. The cooperation between trade and production is particularly efficient in terms of global markets and intense competition.

Cooperation of trade and manufacturers is perceived through the prism of creating value for consumers. Consumers no longer make choices based on products and services offered to them, but based on values that is better in relation to competition. Such a value can be provided only with the strong cooperation between the trade and manufactures. If one takes into account the fact that modern market economy is increasingly characterized by the concentration of retail stores, bypassing the wholesale trade and the establishment of direct relations between retail and manufacturer, it is important to establish a relationship of cooperation in retail trade enterprises with producers, and within development of partnership relations.

Cooperation and trade with the producers can be viewed from various perspectives and in different domains. First, the relations of cooperation exist in the distribution channel and vertical marketing systems, which are increasingly gaining in importance. As for the domains of cooperation, which is reflected in the creation of value for consumers, it is important that it exists in the area of market research, product range and product quality, as well as in the creation of trademarks.

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