

STRATEGY OF DISTRIBUTION IN FOOD INDUSTRY COMPANIES

Joanna Nowakowska-Grunt¹

ABSTRACT: The essence of distribution is thus reduced to harmonization of demand and supply. Such an adjustment is only possible through amassing and providing customers with products of a particular structure and specific usage properties. Levelling the differences between production and consumption area is also an important issue.

Key words: strategy of distribution, distribution channels;

JEL Codes: L6

Introduction: Strategy as an element of business management

Strategies adopted by companies, especially by management has significant impact on success or failure of an enterprise as well as on its bankruptcy or survival in the market.

“A strategist, i.e. a manager who thinks and manages strategically is a person who focuses on rules for operation, creates visions for future state of environment and who seeks for best concepts of survival and development of a company.”⁽¹ M. Romanowska, 1995, p.2).

„[...] Nowadays managers sometimes have to be confronted with three fundamental strategic questions in order to understand if and how a company offers its customers to satisfy their needs. These are the questions about the sense of existence of companies and visions of their operation in the future, about the markets and products and dominating model of operation.

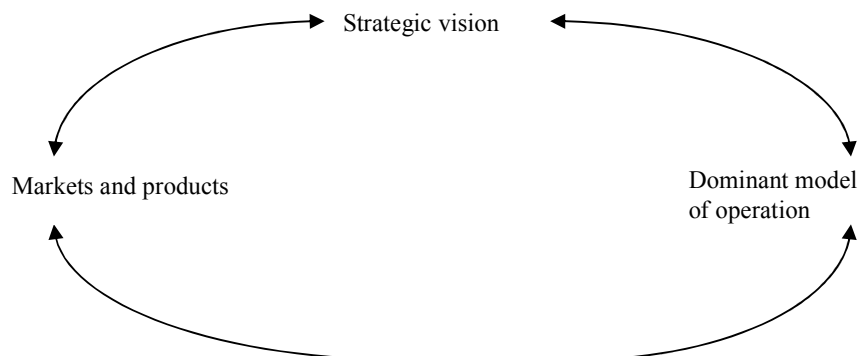


Fig. no.1- Fundamental strategic choices

Source: K. Oblój, „Strategia organizacji. W poszukiwaniu trwałej przewagi konkurencyjnej”, wydanie II zmienione, PWE, Warsaw 2007, p. 19

Answers to the above questions are strategic choices which create a ‘theory of business’ referred to by P.F. Drucker. ‘They form an organization, dedicate decisions relating to what the organization does and what it does not, define what an organization recognizes as vital progress. They include assumptions for the markets, for identification of recipients and competitors, their values and activity. They determine the technology and dynamics of its changes, weaknesses and strengths in companies. They are assumptions for what companies are paid for. [...] Each organization, in or out

¹ Czestochowa University of Technology, jng@zim.pcz.pl;

of business has its theory of business which, if clear, transparent and precise, has a powerful effect.' (K. Obłój, 2007, p.19)

Application of strategies for efficient operation in companies is a kind of game in order to shape a future for the companies. Each game has its rules and the gamers chose and make some decisions in order to improve the chances of success. Companies which play in the domestic or international markets have to consider competition with all interactions between potentials of companies and can not neglect any type of signals from environment.

Process of strategic choices while formation of strategies must include two components. First component concerns strategic analysis of environment, which contain all opportunities and threats through in-depth analysis of environment including an environment in which the company operates, striving for a more detailed assessment of competition through analysis of a branches and strategic groups. The latter relates to analysis of organization which will reveal both strengths and weaknesses through analysis of resources and abilities existing both in company's culture, history and operation. (K. Obłój, 2007, p.40,41).

'Essence of strategy formulation is striving to find answers to the following four fundamental questions:

- what is the current position of a company and what are its development opportunities?
- which position the company would like to have in the future and which goal do they want to achieve in a strategic period, i.e. the period for which the strategy has been prepared?
- what impedes currently and what can impede achievement of future position of the company?
- what has to be done in order to switch from current to the desired position and to be successful?' (J. Penc, 1994, p.146).

The rules which should be followed by managers for strategy formulation:

- depart from one-sided and short-sighted thinking (balance, profits)
- never neglect and ignore any, even temporary opportunity to gain an advantage,
- develop and deepen well-known scopes of activities ('novelty' in the market)
- through diversification of production, it is better to launch products which develop gradually (maintaining good position)
- accept that the most important strategic rule is not to fight competition but providing customers with products (services)
- systematically seek innovation
- make efforts to extend and invest in the market (fast and flexible contacts with recipients)
- energetic development of cooperation with overseas companies (joint ventures)
- focus on seeking appropriate (modern technologies) cooperation with research sector i.e. universities R&D institutes, scientists)
- watch the environment closely (competition and legal, sociological, political, ecological and technology aspects) (J. Penc, 1994, p.151-152).

Distribution strategy as an element of competition in companies

Observation of the mechanisms which stimulate behaviour of participants of particular markets indicates that one of the most important areas where most of companies expects opportunities and where they form the basis for its advantage over competitors is distribution of goods i.e. its quality.

Economic approach shows distribution with division of broadly understood goods among members of society. This division depends on social, economical and political systems in each country. They include various allocations of benefits and funds, although market economy causes that distribution translates into exchange of goods and cash, as a result of which the goods find its final recipient. Macroeconomic point of view treats distribution in categories of processes and proper structure through which the flow of goods takes place from the point of manufacturing to the place of final reception. This transfer is enabled through the

channels with technical and material equipment and the interrelations between them which impact on the choice of flow of goods.

Microeconomic approach to distribution impacts on decisions made during formulation of company strategy since it is presented as a choice of method of sale and way of finished goods to final recipients. The products offered in right place just in time and which suite for their tastes and preferences present point of view of distribution in the company, which satisfies the wishes and needs of customers through making right decisions and taking right action.

Time and space aspects of flow throughout the system is also vital as is the quantity and quality of the goods offered to final recipients i.e. customers. Providing consumers with the desired goods forces companies to execute numerous and complex tasks. These tasks include e.g.:

- Delivering finished products to consumption or use by recipients, with consideration of quality, durability and guarantee of storage or appropriate packaging;
- reduction in time of delivery, if it is forced by such a need;
- distribution cost reduction (I. Dembińska-Cyran, M. Jedliński, B. Milewska, s.125);
- making lead time flexible with consideration of delivery cancel or individual lead times;
- extension of services for customers when such a need arises;
- ensuring delivery according to the specific orders i.e. compliance with quantity, quality and assortment and completeness of equipment;
- market analysis in the context of demand with consideration of competitive companies standing (S.E. Dworecki, 1999, s.209).

Execution of the necessary tasks forces manufacturers to choose right channels of distribution and methods of physical relocation of goods so that the previously prepared plans of sales level are executed and the appropriate customer service level is ensured, with consideration of costs. Distribution becomes more attractive to customers, thus proper realization of tasks is necessary; functions performed by distributions turn out to be very useful. Through this the differences between demand and supply in terms of types, quantity and range of products as well as time and place of production and consumption may effectively fade away. Ensuring undisturbed flow of material, information and finance streams causes that the need for distribution channel participants cooperation arises, thus coordination and organizational functions of distribution are useful for efficient flow.

Information system of the logistics centre in the Wielkopolska Gildia Rolno-Ogrodnicza S.A in Poznań (WGRO)

As the sources are giving the Gildia is equipping about 5000 of companies, usually located in the area of median-western and northern Poland, and their annual turnover is reaching 400 - 500 mln. of PLN. Taking under remark the objects which are entering into its composition, it is possible to single out the links as it is shown on picture 2. The most important of objects functioning on the mentioned exchange is the logistics and distribution center. This center has a main task to organize and co-ordinate bigger supplies and standardized games of agricultural-gardening commodities for clients.

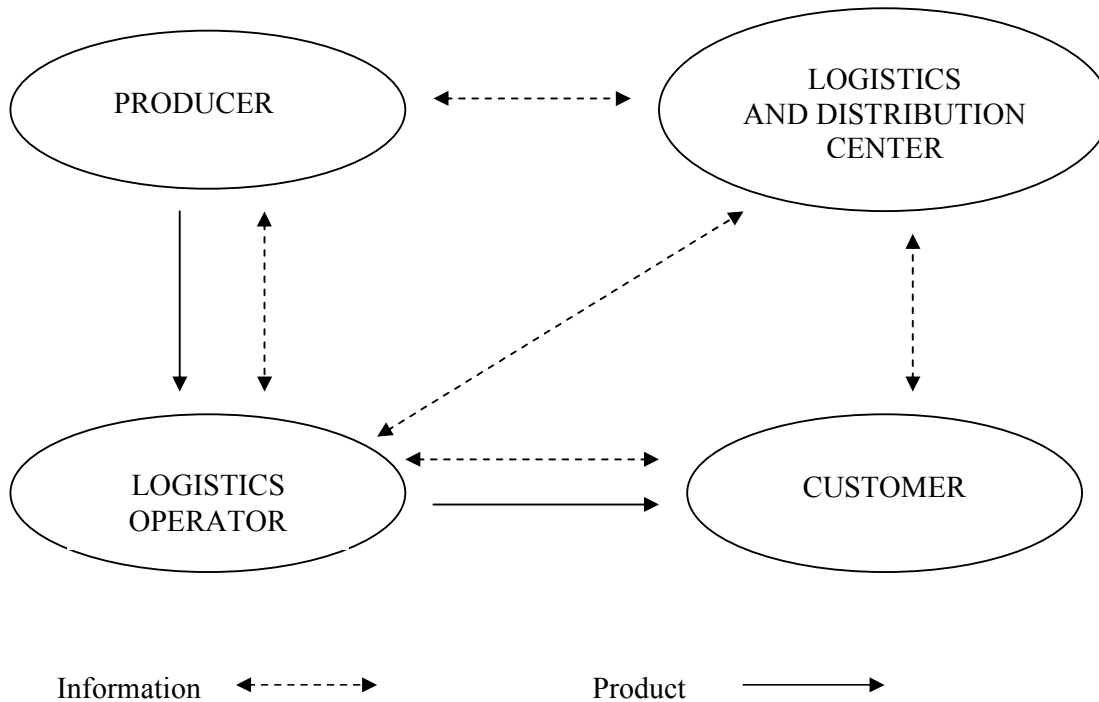


Fig. no. 2 - Schema of the logistics system on the WGRO S.A market.

Source: *Fechner I.*, Onion and potatoes in kilobites, „Logistics” no 3/2001, 4/2001, 6p

In the functioning object as is the commodity exchange, it is possible to distinguish according to logistics classic partitions, three basic phases of physical goods flows. They are: the supply phase, the processing phase and the distribution phase.

Physical goods and information flows refer to both individual and organized deliverers in the supply phase. Here it means the individual producers of agricultural-food commodities, as well as producers groups and specialized processing companies. Producers groups are the most profitable deliverers from the efficiency point of view, because they are supplying at one time bigger, usually good qualitatively deliveries. In this case so, producers groups are deliverers privileged group and they have in WGRO specialist consulting and necessary production products deliveries ensured (like seeds, seed potatoes, fertilizers etc.). Assigning to organizing into producers groups by single deliverers is resting on the logistics and distribution center (*Grabara J., Kot S., 2004 s.171-177*).

Processing logistics includes the activity linked with compiling of deliveries and with supplying the network of big commercial clients with agri-gardening products. Department of compiling has modern devices for compression and tagging of commodities with bar codes what is causing that commodities going through this phase of the exchange performance are growing standardized, high qualitatively products. To point apart from such solutions, but also important WGRO activity is immediate sale realized in the modern hall. It refers to small games offered by single, not associated producers of commodities. It seems that this form of activity will be more vanished, because in spite of the periodic increase in turnover, it is possible to notice the drop in the interest in purchases from the small and average buyers, who were still posing recently the main group of clients on the stock exchange. It is connected with changes which took place about market agents. More often on the market cash & carry are buying actively big commercial networks and

mediators, however the number of purchases realized by small groups of dealers who are just equipping themselves at cash & carry type wholesalers rather is falling. Because of that big commercial networks are more and more significant clients of WGRO, they require not only the high quality commodities and proper packages and the sign of compatibility with the EAN system standards, but also deliveries at the right place and right time in accordance to the Just-in-Time system. Individual deliverers are not capable to fulfill such requirements.

The department of marketing and trade is playing the essential part in the sphere of the WGRO distribution. Tasks of the marketing department are concentrating on the influence on buyers in the purpose of stock exchange popularization, and promoting modern forms of the wholesale business with a promotion of Polish products. The trade department is supposed to search for clients effectively. It is collaborating with the logistics and distribution centre in the information exchange, which is delivering necessary information to contact with clients and associating them with deliverers offering commodities. The commercial offer elaborated by the trade department is then published on the Internet, what gives the access to it for all objectives, not only for those, which are located in the proximity area.

In pointed the next links of the logistics chain is not characterized so far one of elements - the logistic operator activity. In WGRO such an operator is Paker company, which has a task to provide a range of services as: accepting supplies from deliverers, sort, the short-term store, packing in collective and individual packages, forming of logistic units and feeding the commodity to the consumers. So activities of the service company are managing to enriching products with new, attractive application values that they are attractive for big market clients like supermarkets and retail networks.

The significant meaning in the commodity exchange supply chain possesses the information flow. Such a flow is being done in the peculiar way in restated WGRO. Because the full trade offer of exchange is available through the Internet as the electronic form – Trade Information System (SIR), so also all the information gathered from the producers should be in Internet. But because accessibility to this carrier of information is very small at farmers, stock exchange in collecting information is using means of offices, as well as the agricultural consulting centers. Farmers are able in these places to fill the document in the questionnaire form, and then the trained workers of communes and centers are typing it out to the electronic form made it also available in the e-catalogue. The flow of information is paper-less, however information given by producers is coming to the data base managed by the WGRO S.A Logistics and Distribution Center. The system of exchange information with the Internet usage is completed by the system of information and training meetings, while the producers learn about possibilities and principles of cooperation with WGRO S.A, as well as about many substantive questions.

Conclusions

Wholesale market, with the good example of Wielkopolska Gildia Rolno-Ogrodnicza S.A, is fulfilling the broader and broader role in the supply chain. By the intentional and conscious operations it is creating the market of deliverers, with promoting and awarding beneficial from supply chain point of view solutions as producers groups. Also the processing and distribution sphere are modern and both using logistics operators, which provide complex logistics services, and all that allows for create value added for goods offered by Gildia. In Informational flow sphere the Gildia is initiating the activities with the purpose on easy accession, even if there are some difficulties in flow realization (small availability to the Internet observed among agricultural products producers). All these activities make the Gildia a intermediary link for goods exchange between deliverers and customers of agricultural-food goods, and it becomes a specific logistics center which take an important place in the agricultural-food industry supply chain. It is also fulfilling the very important role as the intermediary link for information exchange between sellers and consumers.

References:

1. Research edited by Urban R., 1999, The strategic problems of food industry, IERiGŻ, Warsaw, 20p;
2. Urban R., 2000, Macroeconomic analysis and forecast of Polish food industry development in the European Union accession, paper on Polish Food Industry and Human Consumption Congress, Warsaw 26-28th April 2000;
3. Brzeziński S., 2006, Principles and Purposes of the Economic Globalization in: Global Logistics Challenges. Ed. Stanisław Brzeziński. Wyd. WZPCzest. Czestochowa p.9-30;
4. Kawa A., 2005, The black horse in Union, TSL branch after 1st May 2004, [in:] „Eurologistics” no 2/2005, P.79-81;
5. The law act on 26th October 2000 r. about commodity exchanges (Dz.U. no 103, poz. 1099 with changes);
6. Kościelniak H., 2002, Analysis of Profitability as Regards Equity in the Activities of Polish Stock Companies, in: Technical Aspects of Industrial Reconversion. Ed. Maria Nowicka-Skowron, R.Lescroart, Virton, p.64-72;
7. Dudzik M., 2001, Formal markets, [in:] „Logistics and Materials Economy” no 6/2001, P.24
8. Adamowicz M., Dreger M., 1998, Stock turnover among the Polish agricultural market changes, Bulletin ARR 1998, no 11;
9. www.logistica.pl/slownik/centralogistyczne ;
10. Mendyk E., Theory and practise of Polish logistics centers, „ Logistics” no 5/ 2001, P.18;
11. Abt S., 2000, Logistics systems in management, theory and practise of logistics, AE in Poznan, Poznan 2000, 105p;
12. Fijałkowski J., Chosen problems of logistics centers designing in Poland (Part 1), „Logistics” no 1/ 2001, P.9;
13. Fechner I., Onion and potatoes in kilobites, „Logistics” no 3/2001, 4/2001;
14. www.sir.ilim.poznan.pl;
15. Grabara J., Kot S., Supply Chain Simulation Using "Arena", in: Selected Problems of IT Application. Ed. Janusz K.Grabara. WNT, Warsaw 2004 s.171-177;