CONTROLLING ELEMENTS IN THE DISTRIBUTION POLICY OF A COMPANY

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In a permanent changing environment, the measurement and monitorisation of the performance of a company has become one of the key issues for its success. This fact increases the capacity of each company to adapt to the conditions of the environment, because only by a permanent monitorisation of the performance, a company can discover both its strengths and its weaknesses and in time, it can react according to these.

This paper concentrates on the controlling and performance measurement of the distribution policy of a company. It analyses both the efficacity and efficiency of the distribution channels as well as the succes of the logistics activity.

Keywords: Controlling, marketing-controlling, distribution, distribution channels

1. Introduction

The main objective of the distribution policy is to assure the conduction of the products and services from the company to the final consumers. The first thing which a company has to do is to analyze the selected distributions channels to make sure that the products arrive at the target group (Esch, Herrmann, Sattler, 2008, pg. 321ff). The company must see which is the performance and the success of the selected distribution channel and in what way does this correspond to the customer’s expectations. Secondly it must analyze the efficiency of the physical distribution and of the partners which have a role in the transportation of the products from the producers to the final consumer (Schögel, 2001, pg. 544-567.). Consequently, the controlling of distribution deals with the analysis of the distribution channels performance and with the logistics of the distribution.

A company has the possibility to transmit the products toward the consumers through many distribution channels. The distribution through more than one channel is named polidistribution and has several advantages (Kotler, 2002, pg. 129ff). First of all it reaches a higher degree of distribution and the products get into contact with more segments of customers. On the other hand the risk is reduced by the distribution on more channels and besides this, synergy effects can be obtained (Swoboda, 2001). For example, a company of soft drinks can deliver the products through retailers, through restaurants or bars or through automatic bars. For each of these distribution channels, the strategy and the operational measures are different. In spite of these, for a company is not enough to deliver the products through many distribution channels, but it also has to know which are the most important channels in order to develop them. On the other side, it is also important to find out the distribution channels, which are less efficient in order to reduce the costs with these or to give them up.

Besides the measurement of the performance of the distribution channel, it is important to check the efficiency of the subsidiaries or distribution units. The efficient distribution units which have good results must be developed, and the inefficient distribution units must be closed or the costs of them must be reduced. This should be done not only for the distribution channels, but also for the distribution units. The controlling of the company should monitor these units in order to be able to take measures in time. The way of evaluation and monitorization of the distribution channels can be observed in fig.1.
2. The performance measurement of the distribution channels

First of all a company has to analyze the performance of a distribution channel. This can be done by the turnover or the profit obtained in a distribution channel, and also by the future potential of a distribution channel. For the analysis of the success of the distribution channels a restatement of the Boston Consulting Group Matrix can be used. So we have distribution channels which bring to the company the biggest amount of income. These distribution channels can grow or they can decrease. The growing distribution channels with a big turnover are called “stars”. They must be intensively promoted so that they should remain for the company in the future an important income source. The second category of distribution channels are decreasing and are called “cash cows”. This distribution channels must be kept, but the company must reduce the costs with these and has to make sure that there are also other alternatives for the distribution of the products. For example such distribution channels are neighborhoods shops and mini-markets. Besides this, there are also distribution channels which bring little incomes for a company. They can be of two types: increasing and decreasing. The increasing distribution channels, with small turnover are named “question marks” and have the possibility to become in the future stars. The new distribution channel which appeared on the market must be analyzed, tested and the company has to check the way it fits to the products of the company. In this consequence they must be promoted for becoming the future stars. An example of this type of distribution channel is e-commerce. The last category of distribution channel are the “poor dogs”. These are the distribution channel which bring to the company a small turnover and have few future potential. Depending on the possibility of relaunch, companies have to reduce the costs with these channels or give them up. The four types of distribution channels can be seen in fig.2.
Besides the financial importance of the distribution channels, the degree of distribution must be also measured. The degree of distribution measures the coverage of the market with the analyzed products. This can be calculated in two ways: The simple distribution degree measures the relation between the total number of units which sell the analyzed product and the total number of units which sell products from the analyzed product group. By this, it can be measured if the consumers have access to a certain product in comparison to the whole market potential. By adding a financial element, the turnover, the weighted distribution degree can be measured. The weighted distribution degree is calculated as the relation between the number of distribution units and the percentage of the turnover of this units to the whole channel and the total number of distribution units which sell products from the product group. By this indicator the importance of distribution channels with a higher turnover increases (Schögel, 2001, pg. 544-567).

<table>
<thead>
<tr>
<th>Decreasing distribution channels</th>
<th>Poor dogs</th>
<th>Cash cows</th>
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<tbody>
<tr>
<td>Under average turnover</td>
<td>Cash cows</td>
<td>Over average turnover</td>
</tr>
</tbody>
</table>

**Fig. 2. The Boston Consulting Group Matrix for distribution channels.**

### Distribution degree

\[
\text{Distribution degree} = \frac{D_1}{D_2}
\]

- \(D_1\) = total number of units which sell the analyzed product
- \(D_2\) = total number of units which sell products from the analyzed product group

### Weighted distribution degree

\[
\text{Weighted distribution degree} = \frac{D_1 \times p}{D_2}
\]

- \(D_1\) = total number of units which sell the analyzed product
- \(D_2\) = total number of units which sell products from the analyzed product group
- \(p\) = Relation between the sales of the distribution unit and the sales of all distribution units

**Fig. 3. Distribution degree**

In order to characterize in a complete way the degree of distribution, both indicators must be calculated. Even a comparison of the two indicators can suggest the performance of the distribution channel. Thereby, if the degree of the weighted distribution degree is smaller than the simple degree of distribution than the performance of the distribution channel is diminished. Moreover, the analysis of the development of the distribution degree can indicate negative evolutions of the distribution of a certain product. Depending on the results of this indicators, the company can take measures regarding the distribution of a product.

### 3. The performance measurement of the distribution units

For each distribution channel a company should measure the efficiency of each distribution unit. Depending on the obtained results the company can determine the distribution units in which it should invest and the units where the costs should be reduced or the ones which should be eliminated completely. Keeping unprofitable units in the portfolio of a company, can lead to the lack of success for the whole company, by the high costs. An example for this is the shop chain “Karstadt” in Germany, which went in 2005 almost into bankruptcy, because of big costs caused by unprofitable units.
The performance of the distribution units can be measured with the help of quantitative and qualitative indicators. The quantitative performance measurement uses a series of indicators which refer to the financial aspects of the company, while qualitative indicators refer to the relation that the company has with the distribution unit and also with the location of this unit.

### Indicators for the measurement of the performance of distribution units

<table>
<thead>
<tr>
<th>Quantitative indicators</th>
<th>Qualitative indicators</th>
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<tbody>
<tr>
<td>Turnover</td>
<td>Satisfaction*</td>
</tr>
<tr>
<td>Profit</td>
<td>Power/ Negotiation power *</td>
</tr>
<tr>
<td>Costs</td>
<td>Cooperation degree *</td>
</tr>
<tr>
<td>Turnover/ m2</td>
<td>Conflict degree *</td>
</tr>
<tr>
<td>Profit/ m2</td>
<td>Communication and information*</td>
</tr>
<tr>
<td>Turnover/ Number employees</td>
<td>*between the company and the business unit</td>
</tr>
<tr>
<td>Profit/ Number employees</td>
<td>Number of passants</td>
</tr>
<tr>
<td></td>
<td>Degree of visibility and access</td>
</tr>
<tr>
<td></td>
<td>Purchasing power in the region</td>
</tr>
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<td></td>
<td>Rents/ m2</td>
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Fig. 4. Indicators for performance’s measure of distribution unit:

Among the quantitative indicators a company should apply the turnover of the units, the profit of distribution unit and various types of costs in each unit as for instance transportation costs, storage costs and others. Besides these general indicators a company should use a series of specific indicators such as the turnover or the profit related to the surface (in square meters) of the unit or the number of employees. In order to stimulate the efficiency of the distribution units many companies make hitlists with the most profitable units. By these hitlists, the company increases the competition among distribution units, which can also lead to higher performances. Although all this indicators seem very simple and easy to use, they all have a very high importance for the analysis of the distribution channels and the distribution units.

Qualitative indicators used for the measurement of performance refer to the quality of the relation between the company and the distribution unit, either this units is owned by the company or not (Schögel, 2001, pg. 544-567). These indicators refer to several aspects regarding the satisfaction in the relation between the company and the distribution unit, in the distribution of power among the channel members, the cooperation or conflict degree, the exchange of information, flexibility etc. A high level of satisfaction leads to a better cooperation and communication in the channel, which can contribute to a better performance of the distribution unit. If the satisfaction with a supplier is very high, then his products will be more recommended to the customers, which will lead to a higher performance. A high conflict degree can influence in a negative way the relation and an eventually the efficiency of the distribution channel. The distribution of power between the supplier and distributor or between the parent company and the distribution unit has a very important role, for the fact that the most powerful will also have the power to take decisions for his advantage and the less powerful has to accept these decisions. Depending on the imposed decision, the performance of the distribution unit can be determined (Pelau, 2008). Consequently all these elements can influence in a direct or indirect way, the success of a distribution unit. All these elements can be measured with the help of interviews.

The second aspect regarding the quality of a distribution unit is the geo-marketing. The geo-marketing analyzes the quality and the advantages of the location of the distribution unit for its success and its performance. It analyzes the following aspects: passants number, degree of visibility and of access of the consumers, the buying power in the region, rent costs in the region and so on. A high number of passants and a high visibility degree can increase the number of customers. Moreover, a high purchasing power in the region, can lead to the growth of the sales value per customer. Both elements influence the performance
of the distribution unit. All these elements can lead to the increase of number of customers and their capacity of purchasing volume and influence the success and the performance of the distribution unit.

4. The controlling of the logistics processes

Besides the choice of an optimum distribution channel, it is also important to determine the efficiency of the logistic processes of the distribution. The logistic processes include the costs of the transportation of the products and costs of storage. The costs of the transportation are included in the final cost and therefore the final price of the product. The less the cost of logistics are, the higher the profit for this product will be. Although the costs are very important, one must not forget the fact that the main objective of logistics in distribution policy is to conduct the correct products in the required quantity and quality, to the right place and at the right time, in the right order at the lowest costs (Ehrmann, 2004, pg. 288).

Thereby, for measuring the efficiency of logistics, the company must measure and analyze several costs in order to determine the best way to transport the products. The most important aspects which must be analyzed is to see if the costs are correctly determined, if the transport and logistic costs respect the planned budget, if it respects the principle of minimum costs, if it respects logistics tasks and if there are taken into consideration the new tendencies in logistics and transportation area (Ehrmann, 2004, pg. 291).

One of the first aspects which has to be analyzed is the correct determination of the costs and types of costs. For this analysis, there are used method of controlling used in the price policy, as for instance, target costing, determination of the costs of the process, benchmarking and others. Because the distribution costs are included in the price of the product, it is essential to monitorize them. The company can make an internal analysis of the costs, but it can also do an external analysis by comparing its costs with the ones of the main competitors. Consequently the improvement potential can be achieved by an internal analysis of the costs of the company and it can also be inspired from the way of the working of the competitors (Möbus, 2000, pg. 301-308).

The principle of the minimal cost refers to the way of distribution which should fulfill the objectives of the logistics obtained by having the lowest costs. In this case, the company must take “make or buy” decisions. It should decide if a certain activity will be done by the company itself or if it should be externalized to a third company. Therefore the company must analyze all the possibilities. One method to analyze all this is the decision tree (Ehrmann, 2004, pg.290). For a logistic activity a decision tree looks like in fig 5.

![Decision tree for logistic system.](image)

In the development of an efficient logistic system, the easiest way to take decision is the decision tree. So the company can choose to transport itself the product or it can choose a company that offers transportation services. In both cases it can choose from various types of transportation means: by air, by sea, on the road with truck or with train. Other decision is the type of the warehouse for the products. It can choose between an own warehouse or a specialized company, which offers such services. All the paperwork (invoices and orders) can be done by the company itself or it can be externalized. These decisions are very complex and depend first of all on the type of products and the special conditions that must be respected. Of course controlling has also the assignment to search new methods of transport, storage or other thing of logistic.
The controlling of the distribution policy is very complex and has an important role for the success of the company. It has not only to check if the products arrive at the final consumers in a desired way, but it also has to analyze the costs of the logistics in order to reduce them as much as possible.

**Bibliography:**