

NEW DISTRIBUTION STRATEGIES: CHALLENGES AND OPPORTUNITIES

**Dorel Mihai Paraschiv¹, Ioan Popa², Mihaela Gabriela Belu³ and
Ramona Iulia Dieaconescu⁴**

^{1) 2) 3) 4)} The Bucharest University of Economic Studies

E-mail: dorel.paraschiv@ase.ro; E-mail: ioan.popa.rei@gmail.com

E-mail: belumihaela@gmail.com; ramona.tartavulea@rei.ase.ro

Abstract

Retailers operate in a tough and rapidly changing environment that offers both threats and opportunities. Globalization, mergers and acquisitions and technological development have led to drastic changes in the retail sales. Also, the explosive growth of the Internet is one of the main catalysts in this process. The purpose of this paper is to explore the options for distribution strategy implementation, focusing on the new strategies that enable companies to gain competitive advantage and satisfy their customers' needs at the highest standard. Omni-channel strategy is a relatively new approach toward distribution that connects companies and customers at several levels, from a direct type of interaction (physical stores) to virtual ones (e-commerce, social media etc.). The conclusions refer to the challenges and opportunities that distribution strategies must address today and synthesize the new trends in this area.

Keywords: distribution strategies, omni-channel, e-commerce, retail, multi-channel

JEL Classification: D30, F23, L21

Introduction

The retail industry is in a continuous process of evolution and transformation. Globalization, mergers and acquisitions and technological development have led to drastic changes in the retail sales. Also, the explosive growth of the Internet is one of the main catalysts in this process.

Internet effects were mostly felt in the retail sector dealing mainly with intangible assets or information products. But it is not limited to those sectors and traders of physical products realized that today's consumer - sophisticated, critical and well informed - is different from the consumer that they already knew. Thus, the phenomenon known as "social media" provided consumers with power of information and greater control over the market, which implies many dilemmas, important challenges and opportunities for traders.

In addition, the market indicates certain trends in retailing and wholesaling sector. Retailers operate in a tough and rapidly changing environment that offers both threats and opportunities. To be successful, retailers need to carefully choose target segments and to position themselves strongly.

Trying to cope with economic difficulties, retailers must be careful that their actions do not affect their short-term image and their position in the long term. A retail strategist claimed drastic price discounts are a 'sign of panic' and that "Anyone can sell the product through lower prices, but cannot maintain loyalty (Heinemann and Schwarzl, 2010).

New retail formats continue to emerge to address new situations and needs of consumers, but the life cycle of such new forms is becoming shorter. Department stores has had about 100 years to reach maturity stage of the life cycle; more recent forms of retail, such as warehouse stores have reached maturity in about 10 years. In order to be successful, companies need to constantly adapt their retail strategy.

Many innovations are explained by the concept wheel-of-retailing, showing that new types of retailers usually start with a small margin, low-cost operations with low status, but later evolves through a strategy of high price and high value services. In addition, we can observe an increase in the non-store retailing and technology development in this field. In the past two decades we notice the expansion of the largest global retailers. Thus, traders with a strong brand are moving to other countries. Many are expanding internationally to escape domestic markets which are mature and saturated.

Like retailers, wholesalers must have an outstanding position in the market and decide on the mix of the 4P's of marketing. In the long term, their only reason for existence comes from the added value achieved by increasing the efficiency and effectiveness of the entire marketing channel.

1. Literature review

1.1 Distribution strategies

The distribution strategy - part of the marketing strategy - is based on the location of the sales points, marketed products, prices, customer service and communication. These correlate with activities related to sales, logistics, market research, financing and impact of new technologies.

Distribution strategy objectives can be derived from strategic marketing objectives; the latter can be deduced from the overall objectives of the development strategy of the company (See Figure no. 1).



Figure no. 1: Objectives of distribution strategy

A company usually has the objective of winning as much as possible of the market share and achieving long-term stability. Distribution strategy objectives must be integrated into the overall strategic objectives of the firm.

To define the strategy of distribution companies, three elements have an important role:

- The diversity of the marketing format;
- The diversity of product range;
- Territorial coverage.

If we consider the diversity of the marketing format and of product range, distribution companies may be classified as: general and mono-format (quadrant 1); general and multi-format (quadrant 2); specialized and mono-format (quadrant 3); specialized and multi-format (quadrant 4), as we can see in Figure 2.

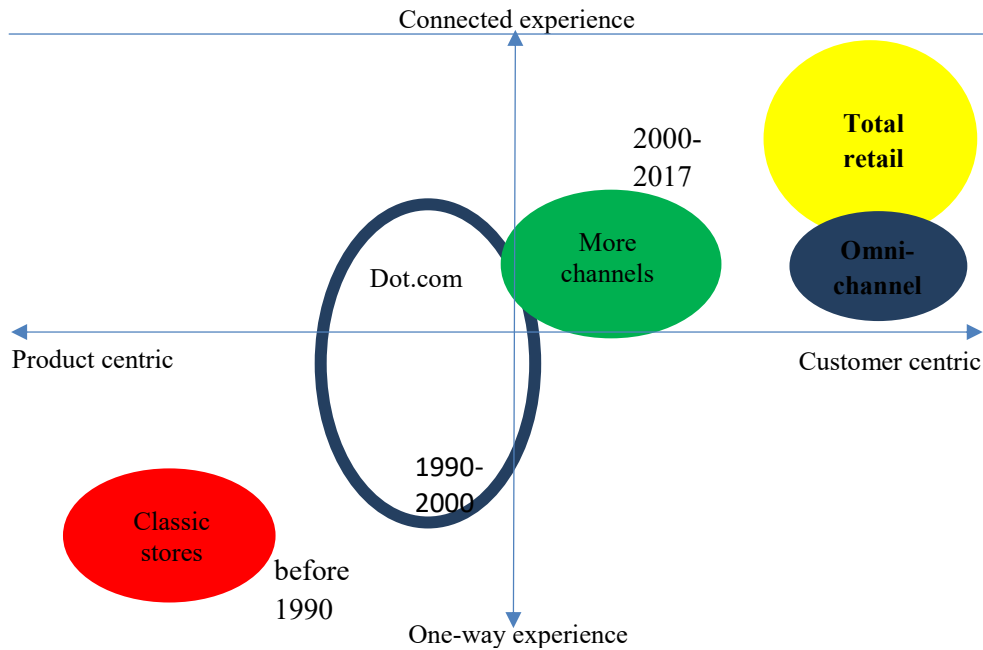


Figure no. 2: Evolution of distribution strategies

Source: PwC, 2014

The world is in a process of continuous innovation, transformation and adaptation. Precisely for this reason, a global electronic market is an attractive opportunity. The decision to expand globally is made for several reasons, both reactive such as existing international competition and proactive, such as vendors seeking economies of scale, pursuing new international markets, looking for access to sufficient resources or taking advantage of new resources and incentives from local governments.

However, the global expansion requires a complex strategic decision-making process. Geographical distance is an important problem when doing business globally, but there are

other essential elements that must be considered, namely: cultural differences, political, legal, administrative and economic issues.

After the 90's, new forms of distribution emerged, such as distance sales, teleshopping sales and electronic-commerce, that led to the entering into the dot.com era (Belu and Marinoiu, 2014).

1.2. E-commerce: challenges and opportunities

If we consider the three defining components of a transaction - the product / service, the process and the intermediary - we can distinguish: traditional trade - where all components / dimensions are material / physical; pure e-commerce - all dimensions are digital; e-commerce part - a mix of material components and digital / information ones. Accordingly, we can talk about: a) organizations / companies operating core off-line, selling physical products through physical agents / materials, those organizations belonging to the traditional economy - *brick-and-mortar (old economy) organizations*; b) virtual organizations, belonging to the new economy, operating only *online/virtual (pure-play) organizations*; c) mixed organizations, carrying on e-commerce as an additional form of distribution apart from classic physical stores - *click-and-mortar (click-and-brick) organizations*.

E-commerce or electronic commerce is the buying and selling of goods and services or transmitting funds or data through an electronic network, primarily through the Internet. A classification of e-commerce can be done by type of transaction and the members involved. The main types of transactions are:

- Business-to-business (B2B) - transactions between organizations; B2B represents over 80% of e-commerce.
- Business-to-Consumer (B2C) - Retail transactions of products or services from businesses to individual buyers.
- Business-to-business-to-consumer (B2B2C) - a business (B1) sells a product of another business (B2). The latter then sell the product to individual buyers who are customers.
- Consumer-to-Business (C2B) - people use the Internet to sell products or services for individuals and organizations.
- Intrabusiness EC - refers to transactions between different organizational units and individuals.
- Business to Employees (B2E) - refers to the provision of information or products from organizations to their employees.
- Consumer-to-consumer (C2C) - individual consumers that sell and/or buy from other consumers.
- E-Government - a government agency buys or provides goods, services or information from or to business (G2B); from or to individual citizens (G2C) and also may have to deal with other governments (G2G).

E-commerce is growing year by year with more and more people opting for the convenience of online shopping [...] E-commerce is booming and retailers face many challenges and opportunities. (Deloitte, 2015).

The development of e-business involves at least six types of activities: the company's web presence; relationships with partners in the supply chain; creation of online catalogs; secure payments; delivery of products; concluding transactions in order to achieve consumer loyalty (Belu and Marinoiu, 2014).

A subset of electronic commerce is the business of e-retail defined as the sale of goods and services on the Internet or other electronic channels, for household or personal (Dennis and Harris, 2002). This includes all e-commerce activities that result in transactions with final consumers (business-to-consumer) rather than business customers (business-to-business). An in-depth analysis of e-commerce reveals the opportunities and challenges that companies and consumer are facing when using the virtual environment as a “place” where the offers of products/services of companies met the needs, desires and aspirations of consumers. In this type of environment, we find specific challenges, both technological and non-technological, which can become barriers if the company is not flexible. Managers must constantly adapt to the new technological developments as well as to the social trends revealed by the virtual environment.

Table no. 1: Challenges and opportunities of e-commerce for companies and customers

Challenges	Companies		Consumers
	Technological	Non-technological	
	<ul style="list-style-type: none"> <input type="checkbox"/>The technical complexity <input type="checkbox"/>The need for universal standards for quality, safety and reliability <input type="checkbox"/>Telecommunications bandwidth is insufficient, especially for m-commerce, video and graphics <input type="checkbox"/>It is difficult to integrate the Internet and e-commerce software with some applications and databases existing <input type="checkbox"/>Large-scale B2C require automated warehouses special equipped for order picking <input type="checkbox"/>Competition with other providers Dependence on Google 	<ul style="list-style-type: none"> <input type="checkbox"/>Few physical contact with products <input type="checkbox"/>Possible difficulties with complaints <input type="checkbox"/>safety risk in payment processing <input type="checkbox"/>The existence of minimum order and possible additional expenses <input type="checkbox"/>mentality of "freeloader" <input type="checkbox"/>reluctance to changes <input type="checkbox"/>Government regulations at national and international can be an obstacle <input type="checkbox"/>There are not enough customers <input type="checkbox"/>Lack of collaboration along the supply chain 	<ul style="list-style-type: none"> <input type="checkbox"/>Internet access is expensive in some cases <input type="checkbox"/>Products may look different online and in reality <input type="checkbox"/>Potential problems of product originality <input type="checkbox"/>The place of origin of the product may not be mentioned <input type="checkbox"/>Risks regarding the safety of personal data and of credit card information
Opportunities	<ul style="list-style-type: none"> <input type="checkbox"/> Global presence <input type="checkbox"/> Reduction of costs 		<ul style="list-style-type: none"> <input type="checkbox"/> Anywhere / anytime availability

	<input type="checkbox"/> facilitates problem solving <input type="checkbox"/> improvements in supply chain <input type="checkbox"/> customization and personalization <input type="checkbox"/> non-stop business <input type="checkbox"/> Reduced costs for communication <input type="checkbox"/> Efficiency of procurement <input type="checkbox"/> Minimizing inventory process <input type="checkbox"/> Lower cost of distributing digital goods <input type="checkbox"/> Provides competitive advantage	<input type="checkbox"/> independence from opening hours <input type="checkbox"/> larger selection of offers <input type="checkbox"/> Market transparency and comparability of products and offers <input type="checkbox"/> individual offers <input type="checkbox"/> Social Interaction <input type="checkbox"/> No sales tax
--	--	--

Source: Turban, E.; King, D.; Lee J.K.; Liang T-P.; Turban, D.C. 2015, p. 17

Two other types of virtual commerce have emerged with the technological development:

- M-commerce (mobile commerce) means the use of mobile devices for online transactions; more precisely, it is about buying and selling goods and services using wireless technology and portable devices such as mobile phones (smartphones) and tablets (generally what is called personal digital assistant – PDAs and any portable minicomputer). The areas most influenced by m-commerce are: financial services (mobile banking, brokerage services); telecommunications; distribution.
- S-commerce (social commerce) is electronic commerce that is done through social networks and online social relations; It is called Facebook-commerce, although it covers a wider range of communication on different social networks. Social networks have become the new e-commerce platform that rivals the original type of dedicated websites, offering research / prospection services, promotion / advertising and payment for sellers and buyers.

The results of a research conducted by Ebeltoft, Global (2014) show a new trend in retail: transition from cross channel to omni-channel strategy of distribution.

2. Omni-channel strategy

Omni-channel is the mix of all physical and digital channels used to create an innovative and unified customer experience (Sealey, 2014). Implementing an omni-channel strategy means reaching for the customer through all the possible “places” he can shop: in classic stores placed in central areas, malls or hypermarkets, in media with teleshopping experience and in the online environment with specific virtual shops but also with social media pages and intelligent advertisement (see Figure 3).

Omni-channel becomes more about providing an experience — the omni-channel customer experience — transcending any one medium and simply providing shoppers what they want, when they want (BigCommerce, 2017). The center of the omni-channel is the customer and all the channels are designed specially to reach him wherever he spends time.



Figure no. 3: Omnichannel Retailing – customer experience

This type of strategy can be implemented by both big and small companies, but it does require a financial investment especially for advertising in media or in the online environment and for purchasing/developing an integrated system of management that enables managers to have constant access to real-time information about sales, inventory and delivery/payment processes, as well as data analysis for continuous optimization (see Figure 4).

Omni-channel marketing is about delivering a more interactive, personalized brand experience that goes beyond tipic behavior and where the consumer is reached through all possible touch points or channels. It is important for both e-tailers and traditional retailers to decide on a marketing strategy specific for their business and products to make sure the marketing goes through the right channels for a specific customer group. To succeed in e-commerce, it is important to be top-of mind among customers. Marketing should therefore be considered as an investment. However, it is crucial to spend the marketing budget on channels that positively impact brand recognition and sales both in the short term and long-term. (Deloitte, 2015)

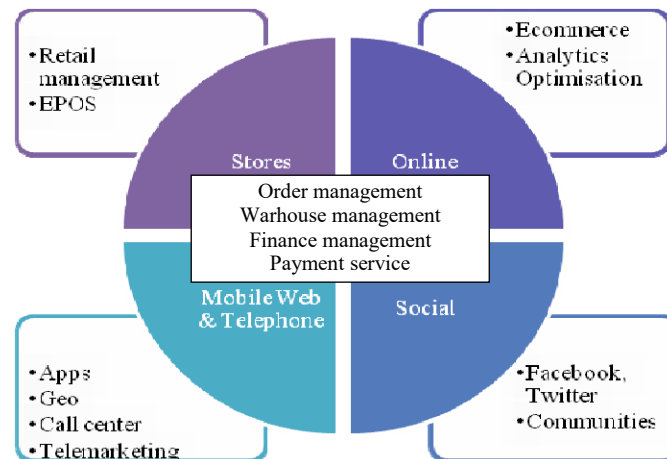


Figure no. 4: Omnichannel strategy mechanisms

There is a complex set of mechanisms that must be implemented by a company that applies the omni-channel strategy, and they should be sustained by a technological and informational structure which must offer/store precise data that can be analyzed in order to further develop the system.

Conclusions

Distribution and intermediaries become over time elements increasingly important. "Gaps" which must be filled between companies and between these and consumers, have become numerous and significant. When a business is growing internationally, the number of transactions increases and there is a need for an efficient distribution network.

It is also worth stressing the importance of distribution as a source of revenue and profit. Lately, the focus was placed on factors such as service, logistics adaptation and less on the product itself. The opportunity of a vendor to differentiate from competitors is found among these elements since production is increasingly standardized.

In addition, with the rapid development of the Internet, e-commerce became a key pillar for companies because it brings them closer to consumers, who can shop faster and easier. E-commerce created a new distribution channel with bidirectional communication between companies and customers, offering businesses a competitive advantage. Moreover, electronic commerce is more than the purchase and sale of goods and services; it facilitates other activities such as exchanges and negotiations between companies.

In order to be successful in the digitalization era, retailers must focus on modern distribution forms that include classic and online stores. Omni-channel strategy is the best choice for companies that want to expand their business and reach as many customers as possible.

References

- BigCommerce, 2017. *Omni-Channel Retail in 2017: What Brands Need to Know and Modern Consumer Shopping Habits*, [online] Available at: <<https://www.bigcommerce.com/blog/omni-channel-retail/>> [Accessed 12 March 2017].
- Deloitte, 2015. *Omni-channel retail. A Deloitte Point of View*. [pdf] Available at: <<https://www2.deloitte.com/content/dam/Deloitte/se/Documents/technology/Omni-channel-2015.pdf>> [Accessed 10 January 2017].
- Ebeltoft Group, 2014. *Global Cross Channel Retailing Report. Entering the Omnichannel Era*, [online] Available at: <<http://www.ebeltoftgroup.com/global-cross-channel-retail-report---entering-the-omnichannel-era.html>> [Accessed 2 March 2017].
- Ecommerce Foundation, 2016. *Global B2C E-commerce Report 2016*. [pdf] Available at: <https://www.ecommercewiki.org/wikis/www.ecommercewiki.org/images/5/56/Global_B2C_Ecommerce_Report_2016.pdf> [Accessed 5 February 2017].
- Heinemann, G. and Schwarzl, C., 2010. *New Online Retailing Innovation and Transformation*. Wiesbaden: Gebler.
- Sealey, D., 2014. *Omnichannel Retailing for Digital Marketers*, [online] Available at: <<http://www.thesealeys.co.uk/marketing/omnichannel-retailing-for-digital-marketers>> [Accessed 5 February 2017].

- Sorescu, A., Frambach, R.T., Singh, J., Rangaswamy, A. and Bridges, C., 2011. Innovations in Retail Business Models. *Journal of Retailing* 87S, (1,2011), pp. S3–S16.
- GfK, 2014. *European B2C E-commerce Report 2014*. [pdf] Available at: <<http://www.adigital.org/sites/default/files/studies/european-b2c-ecommerce-report-2014.pdf>> [Accessed 10 February 2017].
- PwC, 2014. *Achieving Total Retail: Consumer expectations driving the next retail business model*, [online] Available at: <www.pwc.nl/totalretail> [Accessed 10 February 2017].
- Dennis, C., Harris, L., 2002. *Marketing the e-Business*, 1st ed. New York: Routledge.
- Statista, 2016. *Social Commerce*, [online] Available at: <<https://www.statista.com/study/13033/social-commerce-statista-dossier/>> [Accessed 15 February 2017].
- The Partnering Group, 2012. *Social & Mobile Commerce Study*, [online] Available at: <<http://www.thepartneringgroup.com/2012-social-mobile-commerce-study/>> [Accessed 10 March 2017].
- Turban, E., King, D., Lee J.K., Liang T-P. and Turban, D.C. 2015. *Electronic Commerce A Managerial and Social Networks Perspective*. Switzerland: Springer International Publishing