

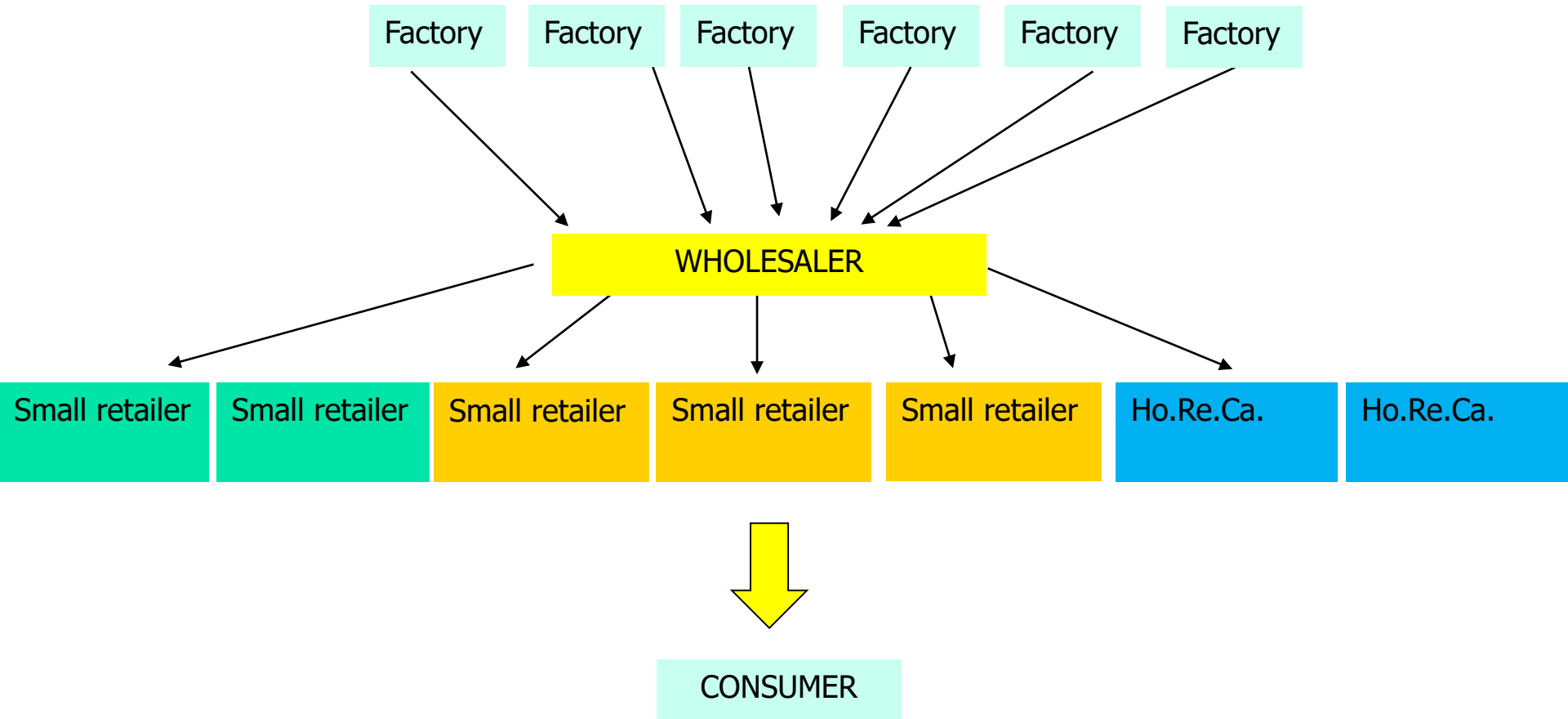


Distribution

Distribution channels

- A distribution channel consists of the combination of independent organisations who assume the functions of transferring the product from producer to consumer.
- Producer
- Wholesalers: intermediary businesses that purchase bulk quantities of product from a manufacturer and then resell them to retailers
- Retailers are generally the customers of the wholesalers and offer high-touch customer service to the end customers
- Consumers

The role of the wholesalers





Distribution channels

Types of Distribution Channels

The length of channel = number of intermediaries between producer and consumer

- Direct channel (producer / consumer): i.e. Selling at Manufacturer's Plant, Door-to-Door Sales, Sales by Mail Order Method, Sales by Opening Own Shops
- Indirect channel (One-level Channel) (producer / retailer / consumer)
- Indirect channel (two or more levels channel) (producer / wholesaler / retailer / consumer)
- Effectiveness of a distribution channel: getting the product into the right place, at the right time and in the right quantities to the customers at the minimum cost for the whole chain.



Distribution channels

Functions of the distribution channels

- Movement through time and space
- Assortment (selection and reorder, storage, allocation, restocking)
- Warehouse management
- Transport
- Marketing research

- Scale economies
- Economies of specialization
- Transactional economies



Distribution channels

Logistics and the supply chain

- Physical distribution: movement of goods (organising transportation to move goods in a timely and secure way from producer to consumer)
- Logistics: holistic view of the process. The co-ordination of the supply chain to achieve a seamless flow from raw material through to the consumer.
- Logistics is central to supply chain management. Transports and warehousing links are the intermediate links in the supply chain.



Distribution channels

Elements in logistics management

- Data transfer transparency (all those involved being kept informed as to what is happening to the goods)
- Co-ordinating set of values and beliefs (set of rules)
 - => Co-operation between channel members
 - => Smooth movement of goods through the channel
- Importance of ITs



Distribution channels

Controllable elements in a logistics system

- Customer service
- Order processing
- Logistics communication
- Transportation
- Warehousing
- Inventory control
- Packaging
- Materials handling
- Production planning
- Plant at warehouse location



Wholesalers

Constitute the connection between

- agriculture and processing/distribution
- processing companies and retailers / Ho.Re.Ca. (Hotel, Restaurants, Catering) => distribution channel
 1. Wholesalers purchase goods from manufacturers and resell them to retailers
 2. Assure the inter-industrial relationships and the relationships between agricultural producers and manufacturers.

The wholesalers activity can “grease the wheels” of the markets:

- Gathering the products of different suppliers (concentration)
- Financing and storing the products (storage)
- Selecting and classifying the products per homogeneous lots (standardisation and assortment)
- Restocking intermediaries and retailers.



Distribution channels

The choice of the distribution channel

- Distribution intensity
 - Intensive distribution
 - Selective distribution
 - Exclusive distribution
- Desired level of control
- Total distribution costs
 - Transport
 - Order processing
 - Cost of the unsuccessful transactions
 - Cost of management of goods in the warehouses.
- Channel flexibility



Distribution intensity

- Intensive distribution: involves maximising the number of outlets where a product is available. This wide exposure means more opportunities to buy. It is typified by confectionery, soft drinks and other FMCGs (fast-moving consumer goods).
- Selective distribution (shopping goods): is used where the choice of outlet or service offered is specifically relevant to the buying situation. Examples are fashion shops, electronic stores who can offer professional advice.
- Exclusive distribution is much more restrictive. In this case there is often only one exclusive company in any one geographic area. I.e dealers for motor cars: they receive the benefit of exclusivity which reduces competition.



Distribution channels

Types of Distribution Channels

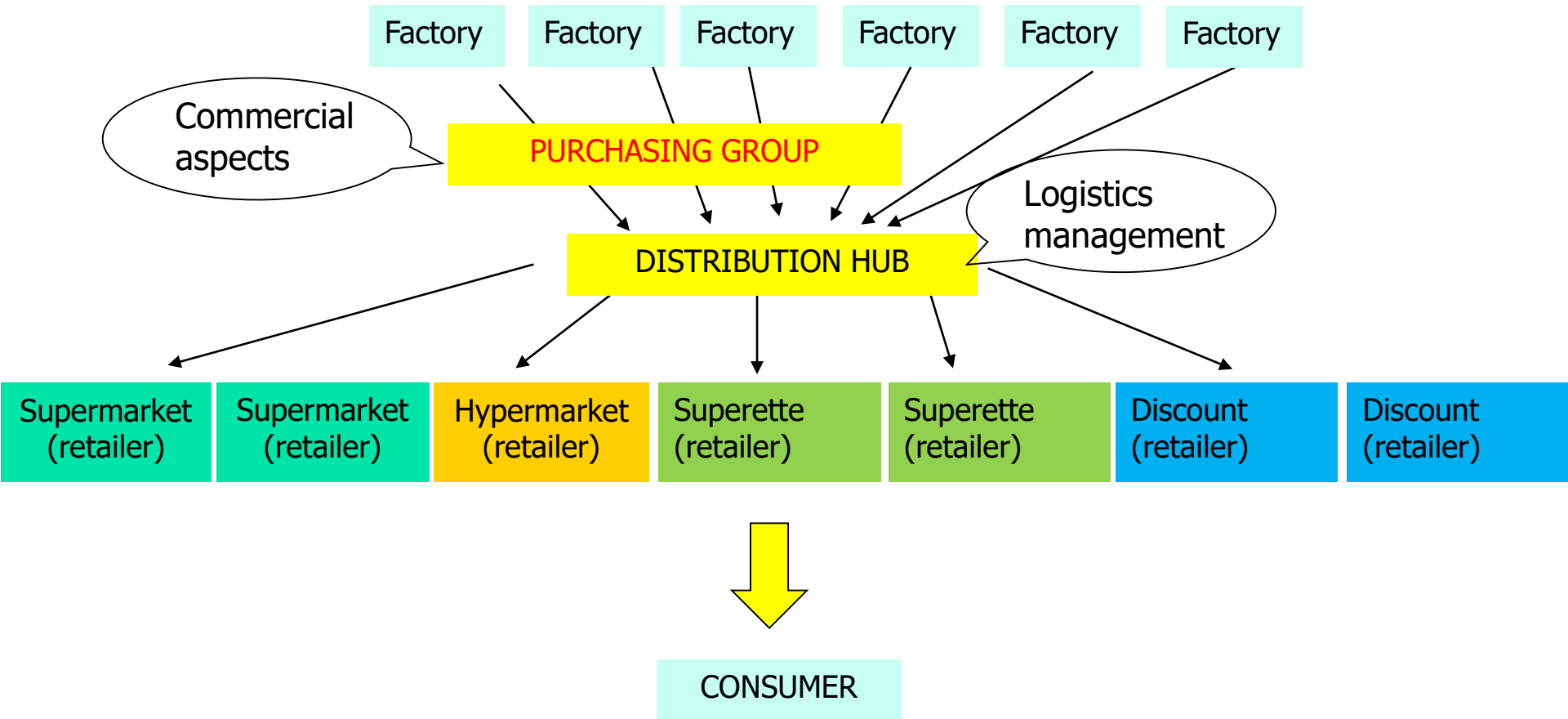
- Classification considering the points of sale.
- In relation to the final consumer.
- Market share of the different retail forms.
 - I.e. market share of wine sales (Italy):
 - Off-trade consumptions (household consumption): 61% of sales of the packaged product (81% Large supermarket chains) in 2014
 - On-trade consumptions (HoReCa): 39%



Large-scale organised distribution

- Organised Distribution
 - Independent companies associated with the aim of operating under a unique brand and purchasing jointly the goods (purchasing groups)
- Large distribution
 - Chains of large retailers (a number of points of sale of a single company / group)
- Large-scale organised distribution: the combination of the two aspects and the growing tendencies of their integration in groups, partnerships and common strategies

The role of the large distribution



Modern distribution: characteristics

- Competition based on cost reduction in logistics (modern distribution vs traditional distribution)
- Self-service and un-specialised commerce
- Price competition and economies of scale
- High concentration and high market power
- New model of the distribution channel and of the supply chain management (distribution hubs)
- Differentiation in retailers categories (i.e. discount grocery stores)





Large-scale organised distribution

Supermarket:

Is a self-service shop offering a wide variety of food, beverages and household products, organized into sections. Retail area between 400 and 2499 square meters

Hypermarket:

Is a self-service shop offering a wide variety of food, beverages and household products, organized into sections. Retail area of 2500 square meters or more.



Large-scale organised distribution

Discount grocery store:

A self-service retail store that sells products at prices lower than those asked by traditional retail outlets, unbranded assortment, exposition on pallets or packaging cartons, low number of different labels for each product category.

Superette:

- Is a self-service shop offering a wide variety of food, beverages and household products. Retail area between 100 and 399 square meters



Large-scale organised distribution

Large distribution: 72% of food products (Federdistribuzione, 2014). It is the obliged passage for most of the food companies.

Change in consumers' purchasing behaviour

Change in market power and supply chain relationships

Restructuring processes in the modern distribution:

- De-territorialisation
- Concentration
- Internationalisation

Competitive strategies of the modern distribution:

- Private labels
- Private standards
- Global sourcing



Large-scale organised distribution

De-territorialisation:

- Progressive reduction and disappearance of local and regional chains
- Processes of Acquisitions and Mergers by national and international chains

⇒ market concentration:

- few national and international groups
- retail alliances and purchasing groups

Large distribution points of sale in Italy: 20.695 (2016)

-supermarkets: 8.314

-hypermarkets: 858

Market share of the first 6 groups: Esd Italia, Centrale Coop-sigma, Centrale Auchan-Crai, Centrale Conad-Finiper, Centrale Aicube, Carrefour (2016) = 71,2%



Large-scale organised distribution

Internationalisation:

- New retail areas in different countries (Auchan e Carrefour).
- Acquisition of national groups by international companies (Carrefour)
- Mergers and partnership between groups or chains of different nations operating in international contexts.

-<http://www.esditalia.it/en/2019-emd/>

-<https://www.emd-ag.com/>



Large-scale organised distribution

Internationalisation:

The main international groups

Wal-Mart (USA): 15 countries – 400 billion \$ revenues (2008)

Carrefour (France): 36 countries – 128 billion \$ revenues (2008)

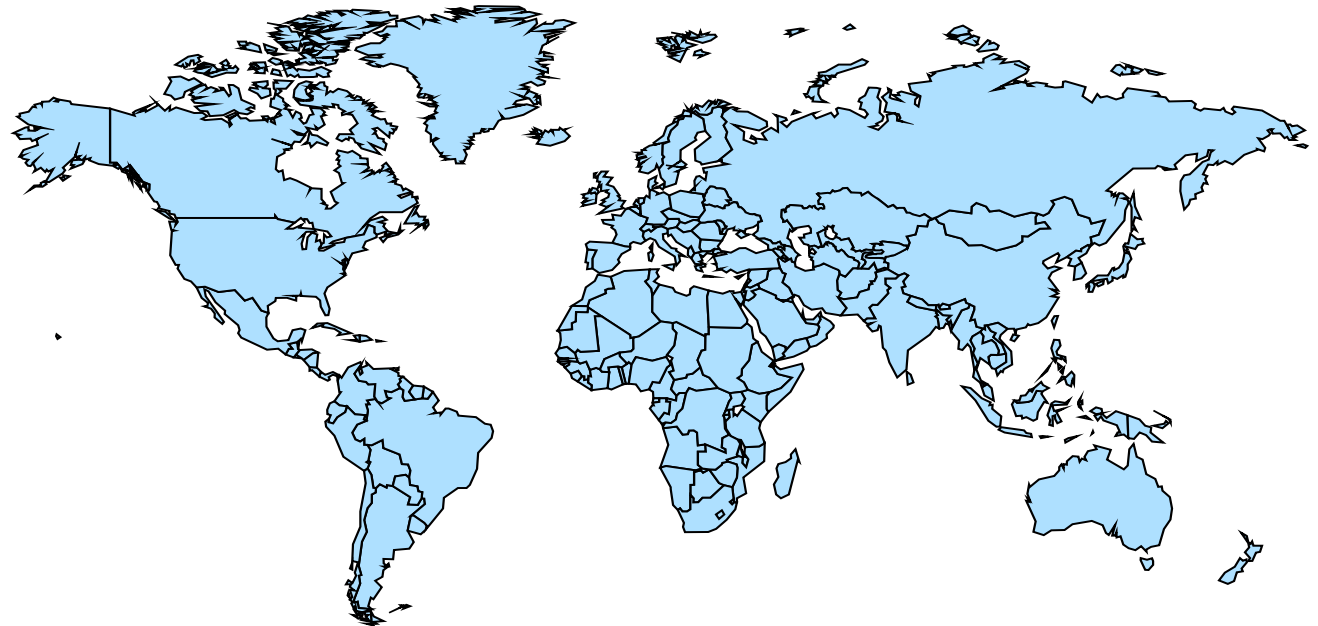
Metro (Germany): 32 countries – 99 billion \$ revenues (2008)

Tesco (UK): 13 countries – 96 billion \$ revenues (2008)

Large-scale organised distribution

Innovative competition strategies aimed at increasing the market power in two directions:

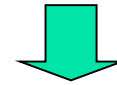
- **Towards the consumers** (oligopolistic power): *private labels*
- **Towards the suppliers** (oligopsonistic power): *global sourcing, private standards and buyers' alliances*





Large-scale organised distribution

Private labels



Private label products are those manufactured by one company for sale under another company's brand.

Private-label goods are available in a wide range of industries from food to cosmetics.

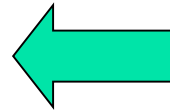
Private label brands managed solely by a retailer for sale in a specific chain of stores are called **store brands** or **own brands**.

Private Labels in the Italian market:

Revenues: about 10 billion Euro

Market share: about 19% (in 2017)

Other European countries:
>30%



Private labels



Private label



Producer brand
(Tavernello, brand of
Caviro)

Wines private labels: Italia 9% (common wines 20%; DOP-IGP 5%) in value

Germany and UK: 21%, Spain: 25%, France: 31%

Private labels: PDO wines



Private labels: PDO wines





Private labels

Evolution of the commercial brands

- Manufacturing brand (market power of manufacturer vs distribution companies)
 - Brand loyalty = guarantee and information towards the consumers
- Commercial brand
 - Not recognizable (unbranded)
 - Imitation of the leader products (manufacturing brands)
- Private labels
 - The retailers become guarantor of the quality towards the consumers



Private labels

- **Store brands (Marche Insegna)**: Private labels with the name of the retailer and sold only in its points of sale, without other elements of differentiation;
- **Premium brands (Marche Premium)**: private labels which name can be different from the name of the retailer but are sold only in its points of sale; are characterised by products with specific quality attributes; i.e. typical products (Conad Saponi e Dintorni, Fior Fiore Coop), organic products (Bio Auchan).
- **“Primo prezzo”**: labels for products sold at lower prices (i.e. Fidel Esselunga).

Private labels

4th generation Private label:

- The retailer designs and launches on the market (alone or in collaboration with manufacturers) innovative products with its own brand



Private labels

Store brands: 85% share of the private labels:

Monobranding strategy: only store brands

Multibranding strategy: store brands + premium brands

I.e. Conad (Conad, Saponi e Dintorni, Bio Conad).





Private labels

The importance of Premium brands for the marketing strategy of the retailers:

- **Diversify the assortment of the offered products** (element of competitive differentiation)
- Increase the **market share of the private labels** and **strengthen the control of the shelf space**
- Improve **the positioning and the company identity**
- Create a strong link with the **local producers (typical products)**
- **Increase the brand reputation**, developing the image of guarantor of the products' safety and quality
- **Innovate the products offer** (competition with the large industrial brands)

Developing a strategy of positioning independent from the industrial brands (dependent positioning) and win the competition with the other retailers chains.

Private labels

The emergence of the private labels have important consequences:

1. Agricultural and processing companies are gradually becoming sub-suppliers, without their own brand and marketing strategy, and with high internal competition (on prices).
2. Innovation and product design are moving gradually under the control of the large distribution (branding and grading strategies)



Private labels



3. The large distribution is reducing its dependence on the great industrial brands (i.e. Barilla-Mulino Bianco), that can be substituted with private labels, decreasing their market power
4. The large distribution is able to put on the market a broad range of food products, out of reach of any industrial company, with the possibility to adapt the commercial strategies (i.e. promotional campaigns)



Large-scale organised distribution

Global sourcing

- Supply of the product – often undifferentiated - at best conditions in any geographical area
- Suppliers can be easily substituted and are in competition with each other.

Private standards

- Quality standards imposed to the suppliers for maintaining a commercial relationship
 - Minimum Quality Standards (common standards to different retailers chains)
 - Promotional use towards consumers
 - Substitution of the private standards to the public ones (i.e. organic, PDOs and PGIs)
 - GlobalGAP, Brc, Ifis (IFSA Feed Ingredient Standard)



International standard system

ISO: International Organization for Standardization (<https://www.iso.org/standards-catalogue/browse-by-ics.html>)

UNI: Ente Italiano di Normazione (<https://www.uni.com/index.php>)

ACCREDIA: Ente Italiano di Accreditamento (<https://www.accredia.it/>)

Examples of Private standards:

IFS: International Featured Standards
(<https://www.ifs-certification.com/index.php/it/>)

IFIS: IFSA Feed Ingredients Standard (<https://www.fefac.eu/our-publications/good-practices/263/>)

GLOBA LG.A.P.: Good Agricultural Practices https://www.globalgap.org/uk_en/

BRC: British Retail Consortium (<https://www.brcgs.com/>)

Large-scale organised distribution

Which are the consequences of these strategies:

- Standardisation of the supplies, less products varieties and choices, standardisation of the consumption
- Progressive substitution of the public dimension of the standard with a private one
- But...
- High potential of sales, also for typical and premium products
- International market penetration trough the large distribution:
- agreements with international chains
- Penetration of Italian large distribution in international markets



Large-scale organised distribution

The main markets for Italian food products are: Germany, France (70% in EU) and USA

In the EU our large distribution companies are weak.

On the contrary German and French operators are very strong in Italy:

Carrefour, Auchan Leclerc
Metro, Rewe, Lidl

In this sense there is a clear advantage for foreign producers in entering Italian market through international distribution companies then for Italian producers to export their products.

Italian agri-food export in 2015
– First four countries of destination

Country	Million \$	Share%
Germany	6.557,4	17,6
France	4.094,8	11
USA	3.647,5	9,8
GB	3.254,2	8,8

Italian agri-food import in 2015
– First three countries of provenance

Country	Million \$	Share%
France	5.571,1	13,3
Germany	5.279,2	12,6
Spain	4.736,3	11,3