

## VECTOR MODEL OF EVALUATING THE COMPETITION IN DISTRIBUTION CHANNELS

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**Key words:** horizontal and vertical competition, competitiveness of distribution channels.

The article examines competitive relations in distribution channels, the cyclic character of the process of evaluating the competitiveness. Vector model reflects the direction of evaluating the competitiveness in distribution channels, as well as the content of the demands of producers, middlemen and consumers to the potential and existing contra agents in channels

In market economy based on competition in the conditions of risk and uncertainty of external environment the determinant of successful activity of enterprises-producers is the stability of high level of their competitiveness, as well as the competitiveness of the distribution channels in use. As D. Bauarsoks and D.Kloss<sup>1</sup> mention, additional consumer costs of products and services give four types of economic profit: form, ownership, time and place. The form of products is created mainly in the process of production, the profit of ownership, time and place in distribution channels.

The presence of the effective system of the distribution of production is the important competitive advantage of the enterprises-producers, as the competition between separate goods and companies comes to the past. In the consumer market especially in the market of package goods, it is necessary to speak about the competition of market systems, including industrial enterprises, commercial, marketing, logistic and financial companies united in international, national and regional nets. In the conditions of the concentration of trade capital, improving logistic technologies and marketing, competitiveness is additionally filled by such

components as the efficiency of accomplishing orders, delivery safety, the presence of inter shop marketing, the image of trading network, strong private brand.

However except competition in its traditional understanding as the struggle between the companies, there is competition inside distribution channels, if they are coordinated systems. Enterprises are the producers of goods and services, trading companies - the participants of traditional distribution channels operating in Russia, most of them compete inside the channel for dominating positions and more preferable agreements, for the preference in relation to other elements of the distribution system. Competition appears both while forming the channels and in the process of the interaction of its participants.

Competitive advantages inside the channels can be formed both horizontally and vertically. Horizontal competition appears among the intermediaries of one type at one and the same level of one distribution channel or several channels (figure 1).

Vertical competition can appear among the intermediaries of different levels of distribution channels, for example: between the wholesaler and retailer; between the wholesaler and retail-

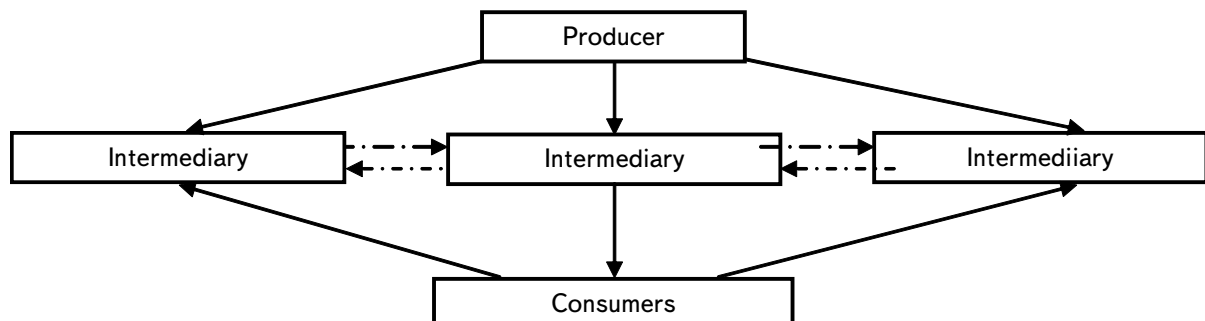


Fig. 1. Horizontal competition in distribution channel

-.-.-> - competitive relations;  
 <--.-.- - competitive relations;  
 ——> - the direction of goods flow.

\* Voitkevich Natalia I., Candidate of Economics, Associate Professor of Samara State University of Economics.

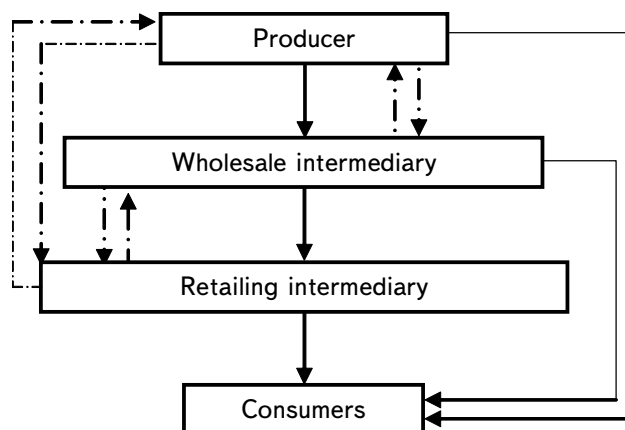




Fig. 2. Vertical competition in distribution channel

 - competitive relations ;  
 - the direction of goods flow.

ing intermediary on one hand, and producer on the other (figure 2).

Besides, in the distribution process there can be a situation of a mixed type of competition, when simultaneously there is horizontal and vertical competition. In all the studied situations competitive relations appear in the process of selling goods, it is the struggle for the possibility to sell more and to get bigger profit. In the process of such competition the companies eval-

uate their own competitiveness and the competitiveness of their rivals. Such analysis of the characteristics of different objects is traditionally used while evaluating the competitiveness of goods, enterprises, workforce, countries.

We confirm that competitiveness can be defined and evaluated in other situations, not connected directly with struggle, competition for market share or any other advantages. We are talking about the competitiveness of poten-

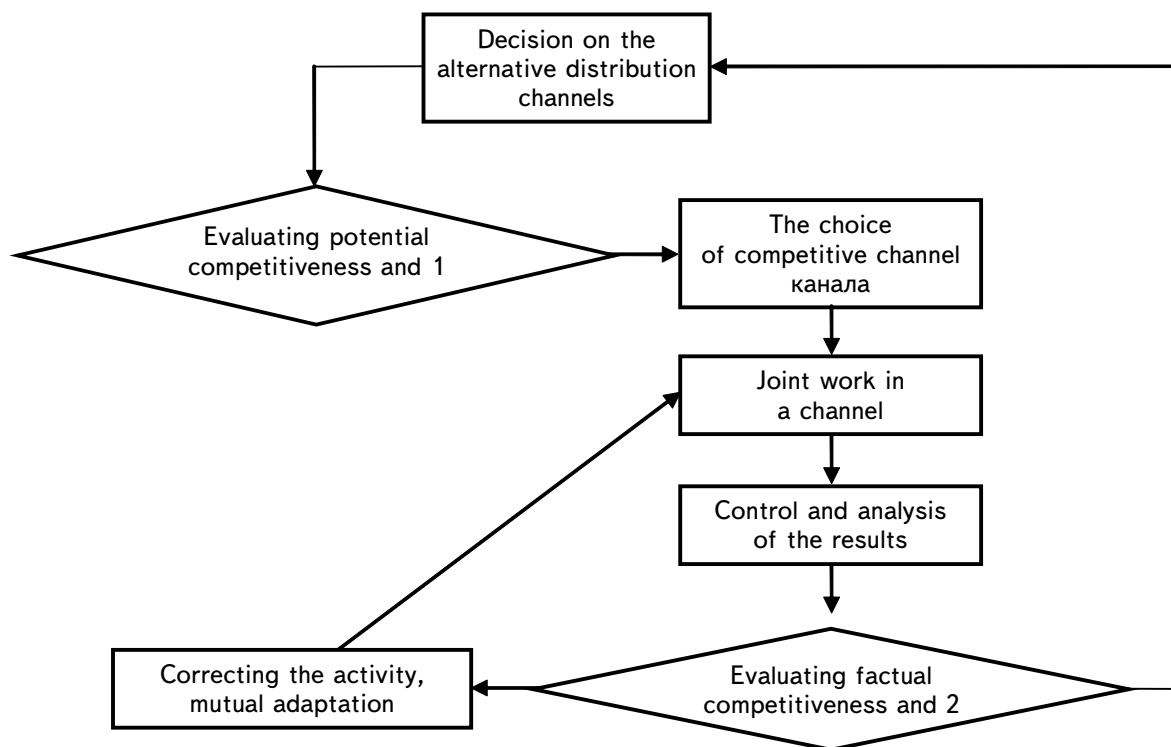


Fig. 3. The stages of evaluating the competitiveness of the distribution channel and its separate participants:

- 1 - initial evaluation in decision-making while making the decision about the work in channel;
- 2 - current evaluation due to the interaction results, i.e. evaluating factual competitiveness

tial and existing contra agents in supply of goods and services in distribution channels.

If we consider competitiveness as the ability of this or that object to satisfy somebody's demands better than other objects-competitors do this, than it is possible to speak about the competitiveness of suppliers, competitiveness of clients and consumers, competitiveness of the channels of goods and service distribution.

The peculiarity of the competitiveness of distribution channels is that their competitiveness is evaluated not only the consumers, buying goods through these channels, but also by other participants of channels that have their own consumers.

The cycle of the process of evaluating the competitiveness of their contra agents by the distribution channels is represented in Figure 3.

Managerial decisions about the expediency to work in this or that distribution channel of enterprise-producer and intermediaries are made based on the evaluation of the competitiveness of the whole channel or its separate chains in the situation of entering the new markets or introducing the new goods into the markets, as well as the results of audit of the efficiency of the activity in operational channels. The producer decides how this or that channel satisfies or can satisfy his demands.

From the point of view of the producer, the distribution channel is competitive if it provides the accessibility of goods for the target market. The channel should be controlled, flexible, provide the necessary sales volume and high economic and marketing efficiency.

The independent intermediary evaluates the competitiveness of the channels while making the decisions about the change of specialization in the range of goods, while making the agreements about franchising, and while searching for the new channels.

Vector direction of the evaluation of the competitiveness of the existing and potential contra agents on sales and delivery of goods is different (Figure 4).

As we see from Figure 4, the intermediaries evaluate the suppliers due to a number of characteristics, the most significant from them is of course the competitiveness of product. Then come economic characteristics of commercial relations - commercial credit, payment delay, income distribution, the number of functional discounts and etc.

The producers of goods should point out the demands of their clients, analyze them. QFD (quality function deployment) method should be used then, that makes it possible to integrate the demands of the customers to goods with the operational opportunities of suppliers<sup>2</sup>.

Strategic decisions of producers and intermediaries about the target market segment are the evaluation of the consumer's competitiveness, as different groups of consumers have different attractiveness for the participants of distribution channels. The competitiveness of consumer is studied from the point of view of prestige, profitability and perceptiveness. The image of producer and retailers depend on the social status of final consumers that buy their products.

The consumer evaluates the competitiveness of retail outlet that gives him the result of the functioning of the whole distribution channel. Final consumer evaluates the result and efficiency of distribution channel by the competitiveness of retailing. Here it is first necessary to talk about such multiaspect criteria as the level of service. The level of service includes the following elements as demands: the presence of high quality goods, the speed of taking orders, flexibility in satisfying the specific demands of consumers, the possibility to change the product with defect or change it, professionalism, high quality service etc. Besides, for the consumer to have new goods in the product range, effective communication and attractive systems of stimulating the purchases.

Finally it is possible to make a conclusion: the peculiarity of the competitiveness of distribution channels is that its evaluation can be accomplished by different criteria.

So the competitiveness of the distribution channels can be defined as their ability to satisfy the demands of consumers: the competitiveness of distribution channels - is the characteristics showing its advantage in comparison with other similar competitive systems in satisfying the demands of target market. The competitiveness of the channel and its separate participant is proved by the potential to create, support and develop their competitive advantages.

For the effective management of the distribution channels and increasing their competitiveness it is important to identify the demands of separate participants to distribution channels and reveal what criteria evaluate the competitiveness of the channels and their commercial partners.

As for the producers of goods, their main demand, satisfied by distribution channel is to provide the availability of goods for consumers or, in other words, the necessary product should be represented in the necessary quantity in the right place in the right time for a certain consumer with optimal costs. However, depending on the strategic aims of the company, the stage of the product lifecycle certain characteristics of demands will

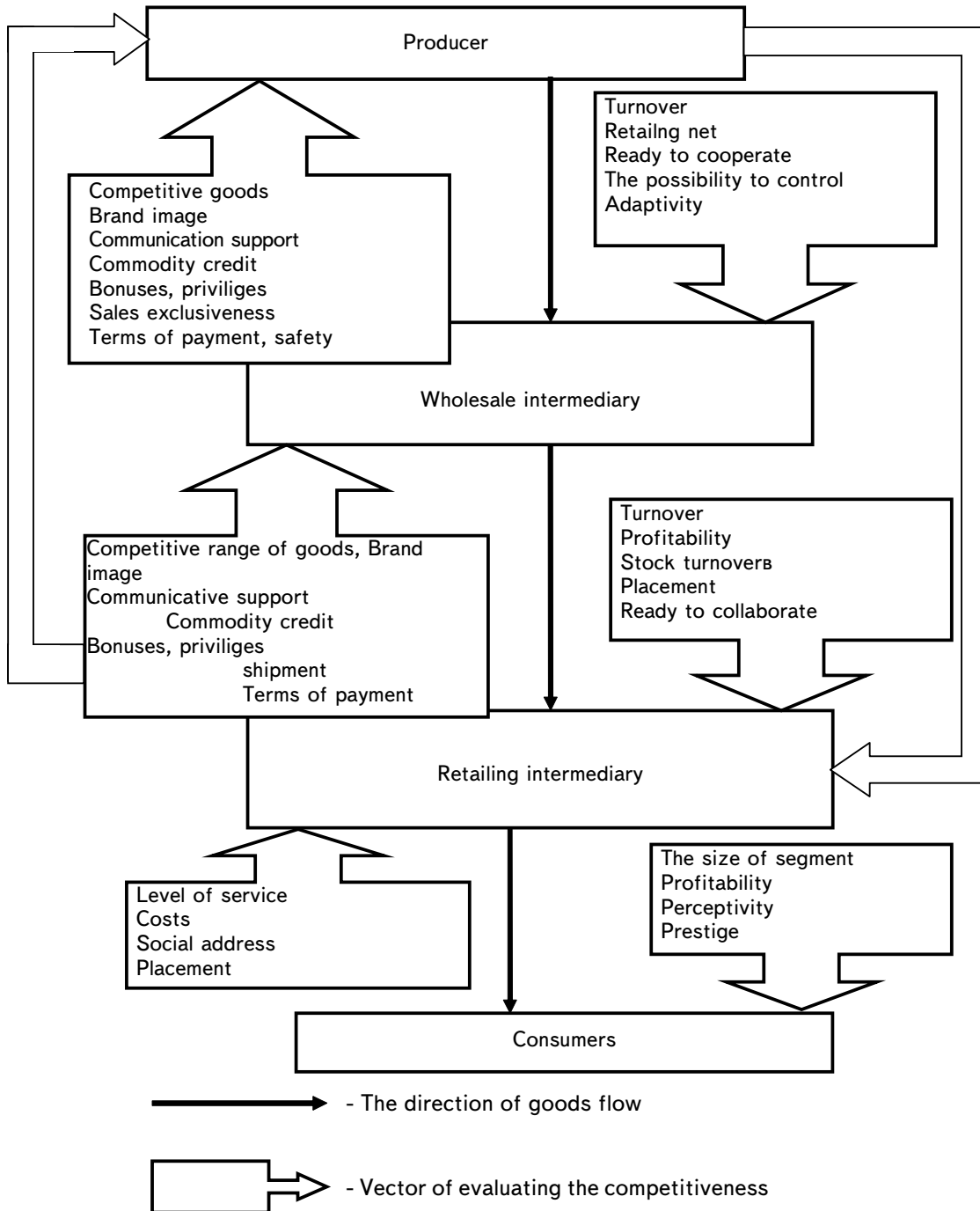


Fig. 4. The model of vector direction and the content of evaluating the competitiveness of the participants of distribution channels

change, and the demands to the distribution channels will be different, as a consequence, the evaluation criteria of the competitiveness of the channels will be different. Other distribution channels can be considered as competitive, and already existing channels can be corrected. Therefore the criteria with the help of which the competitiveness of distribution channels is evaluated are not stable. They can change as a result of changing the strategic aims of the company, its market force. As a consequence, for the objective evaluation of distribution

channels it is necessary to develop general and private criteria, methodology and methods of their use in different situations.

<sup>1</sup> D. Boursoks., D.D. Kloss Logistics. Integrated supply net. M., 2001.

<sup>2</sup> K.A. Papenkova, N.S. Ivashchenko. The usage of method QFD - quality function for the development of the activities targeted on improving the competitive position of the enterprise // Vestnik of Samara State University of Economics 2008. № 2. C. 79-84.