

2001-11-01

The Impact of Centralised Distribution on Distributors and Agents

Edward Sweeney

Technological University Dublin, edward.sweeney@tudublin.ie

Follow this and additional works at: <https://arrow.tudublin.ie/nitloth>



Part of the [Business Administration, Management, and Operations Commons](#)

Recommended Citation

Sweeney, E.: The Impact of Centralised Distribution on Distributors and Agents. *Logistics Solutions*, the Journal of the National Institute for Transport and Logistics, Vol. 4, No. 4, pp. 8-13, November 2001.

This Article is brought to you for free and open access by the National Institute for Transport and Logistics at ARROW@TU Dublin. It has been accepted for inclusion in Practitioner Journals by an authorized administrator of ARROW@TU Dublin. For more information, please contact yvonne.desmond@tudublin.ie, arrow.admin@tudublin.ie, brian.widdis@tudublin.ie.



This work is licensed under a [Creative Commons Attribution-Noncommercial-Share Alike 3.0 License](#)

The Impact of Centralised Distribution on Distributors and Agents

by

Edward Sweeney & Randal Faulkner (NITL)

What is Centralised Distribution?

Centralised distribution is a means of organising the receipt of product from suppliers and its onward delivery to the individual branches of a multiple retailing operation. Deliveries from suppliers are transported to a central location, usually in full load quantities, rather than to each branch. Loads are then consolidated from a number of suppliers and delivered to the branches, usually in a single full load.

The logic of centralised distribution, from the perspective of the retail multiples, is:

- Branches receive a single delivery of a variety of products from a single source rather than a number of different deliveries from a number of suppliers. This eases administration and work load at branches.
- The multiples can negotiate a price reduction from their suppliers to reflect the saving in distribution costs arising from a single, and usually, full load, delivery compared to a multi-drop delivery to a number of branches, or alternatively, can charge the suppliers for the use of the centralised system.

The delivery of full loads to a central location can make it economic to import product from outside Ireland. In the case of multiples with a base outside Ireland, this could be from suppliers in other countries with whom they may already do business. In addition, the delivery of full loads directly from a supplier to a central location could lead to the by-passing of Irish-based distributors and agents. Potentially the most serious consequence of centralised distribution is that without the volume deliveries going to branches of the multiples around the country there will be a higher cost and a decrease in service for deliveries to independents. This will particularly affect those located in remote locations.

NITL conducted a study to understand the impact of centralised distribution on distributors and agents. In relation to this study, while the principle of centralised distribution applies to multiples in different retail sectors, and its impact is felt by many parts of the retail supply chain, the scope of this article is confined to:

- The food sector only
- Centralised distribution by the grocery multiples, by which we mean Tesco, Musgraves, Dunnes, Superquinn and others as they enter the market
- Its impact on distributors and agents

What are Distributors and Agents?

Distributors and agents both represent suppliers, but there is a technical and legal difference between them. Distributors own stock, take orders, invoice customers for sales, and make a margin on these sales. Agents do not own stock, but take orders on behalf of a supplier and are paid a commission on the sales they make. As this difference is often not well understood, and as the impact of centralised distribution is the same for

each, for the purposes of this article, it is assumed there is no difference between the two. For the purposes of this report, distributors and agents are defined as Irish-based companies who represent suppliers located outside Ireland, and who hold stock, sell and distribute the product to their customers. Some distributors and agents in Ireland also have a manufacturing capability. These have been included in this study.

Survey of Distributors and Agents

In the absence of any detailed information from other sources, and as a basis for the understanding the impact of central distribution, a survey of distributors and agents in Ireland was undertaken¹. A directory of distributors and agents compiled by *Checkout* magazine was used to compile the population to be surveyed. A detailed questionnaire was sent to the 136 distributors and agents on the list, some of whom, as discussed above, also had a manufacturing capability. 50 replies, representing a 36% response rate, were received, which in terms of postal surveys is an excellent response, possibly reflecting the interest and concern about the issue.

Main Findings

The questionnaire addressed a wide range of issues relating to centralised distribution and its impact on distributors and agents. For the purpose of this article, discussion is restricted to findings in relation to the following issues:

- The proportion of business derived from the multiples;
- The impact on turnover;
- The impact on employment; and
- Possible strategic responses

As discussed above, given that the distinction between agents and distributors is probably not well understood and is of no material difference in relation to the recommendations arrived at as a result of this research, the responses have been classified into two groups.

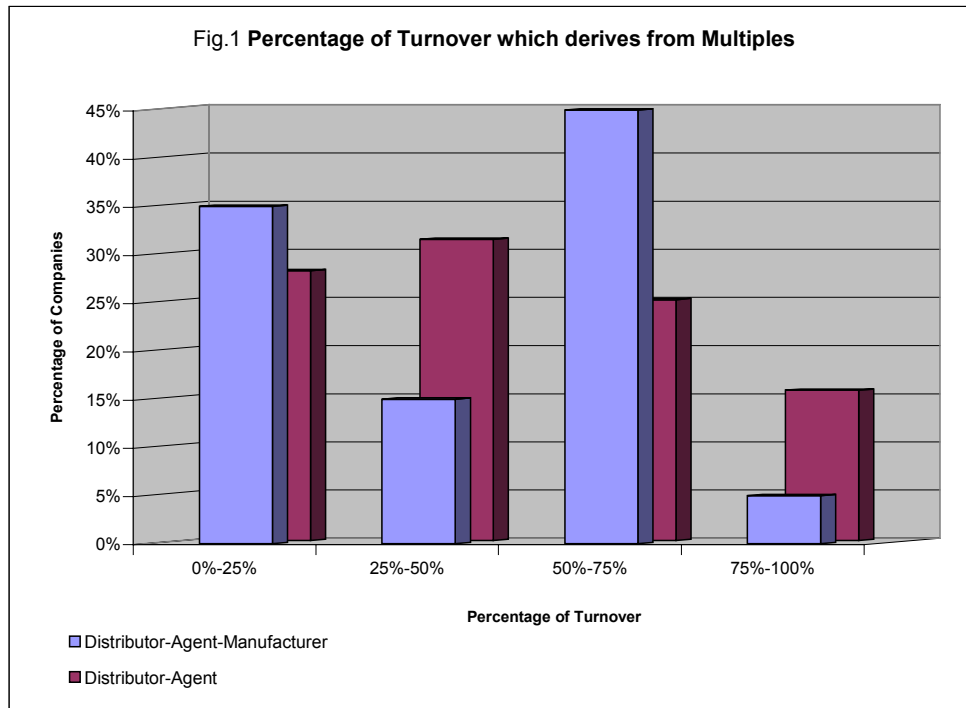
Group 1: Manufacturers/agents/distributors, i.e. those companies with a manufacturing capability

Group 2: Distributors and agents only, i.e. those without a manufacturing capability

Proportion of Business Derived from the Multiples

A key issue addressed in the questionnaire was the extent to which distributors and agents are dependent upon the multiples. Figure 1 indicates the percentage of turnover which the respondents indicated derives from the multiples.

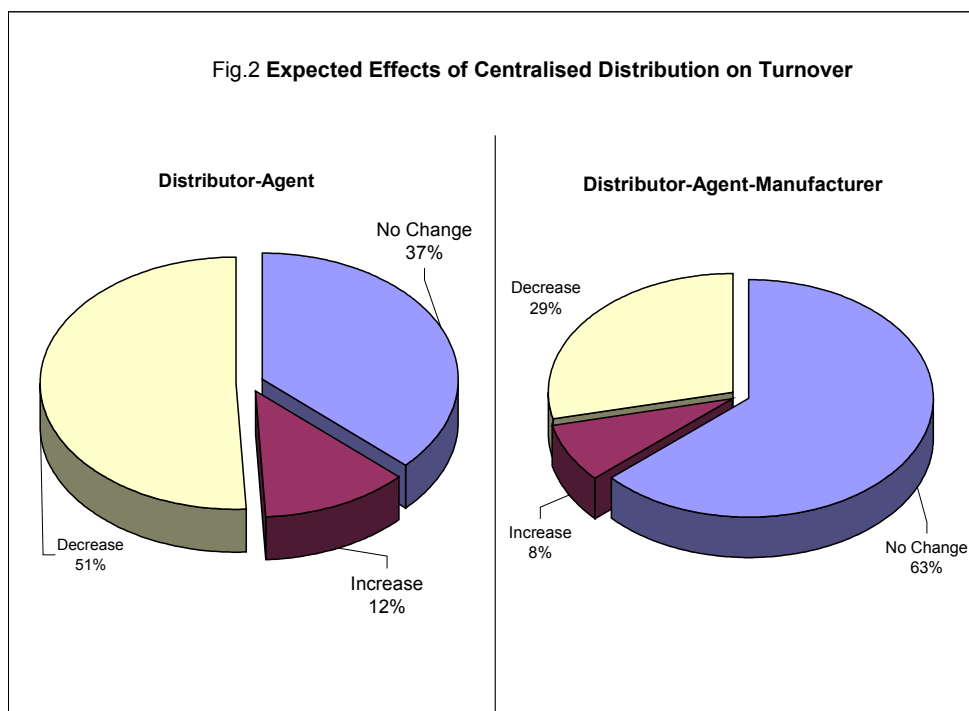
¹ The survey was carried out in 1999.



The conclusion is that the multiples account for a significant proportion of the business of this sector. The survey indicates that multiples account for an average of over 40% of the business of both groups, with no significant difference between the two groups. This figure appears low, possibly indicating a bias in the sample. This could be related to a comment from one respondent who, despite the confidentiality of the survey, was reluctant to put his business with the multiples at risk by expressing any negative views. Perhaps a number of those with most business with the multiples did not respond to the survey.

Impact on Turnover

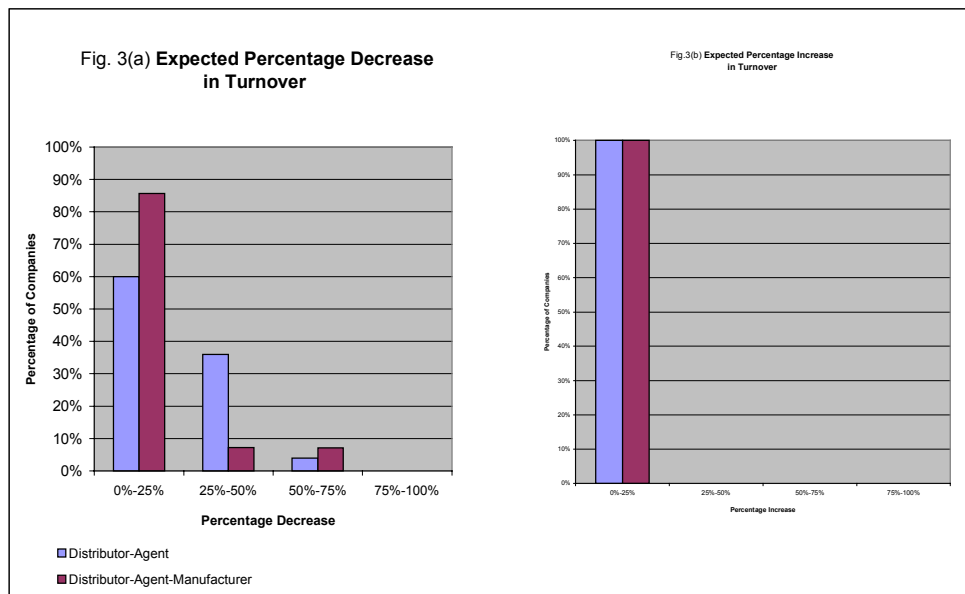
One question in the survey asked companies whether they felt threatened by the introduction of centralised distribution by the multiples as measured by the estimated impact on turnover and employment. Figure 2 indicates the expected effects of



centralised distribution on the turnover of the companies surveyed for each of the two business categories. The main findings were:

- Those respondents with a manufacturing element to their business felt more cushioned against centralised distribution than the pure agents and distributors with 29% of them expecting a decrease in turnover.
- 51% of distributors and agents believed their turnover would decrease.
- There were not many optimists in either group who saw potential growth from the situation with only 12% of distributors/agents and 8% of manufacturers/distributors /agents expecting their business to increase.

Respondents were asked to estimate by how much turnover might change if centralised distribution were to become a reality. Figure 3 shows the expected percentage change in turnover for both business categories.



Of the 51% of distributors and agents who feel their turnover will decrease, almost all believe this could be by as much as 50%. Again, those with a manufacturing element do not fear such a significant decrease. Of the small number of optimists in both groups expecting an increase in turnover, all feel this will be no more than 25%.

Impact on Employment

Figure 4 below indicates the expected effect of centralised distribution on the employment levels of the companies surveyed for each of the two business categories.

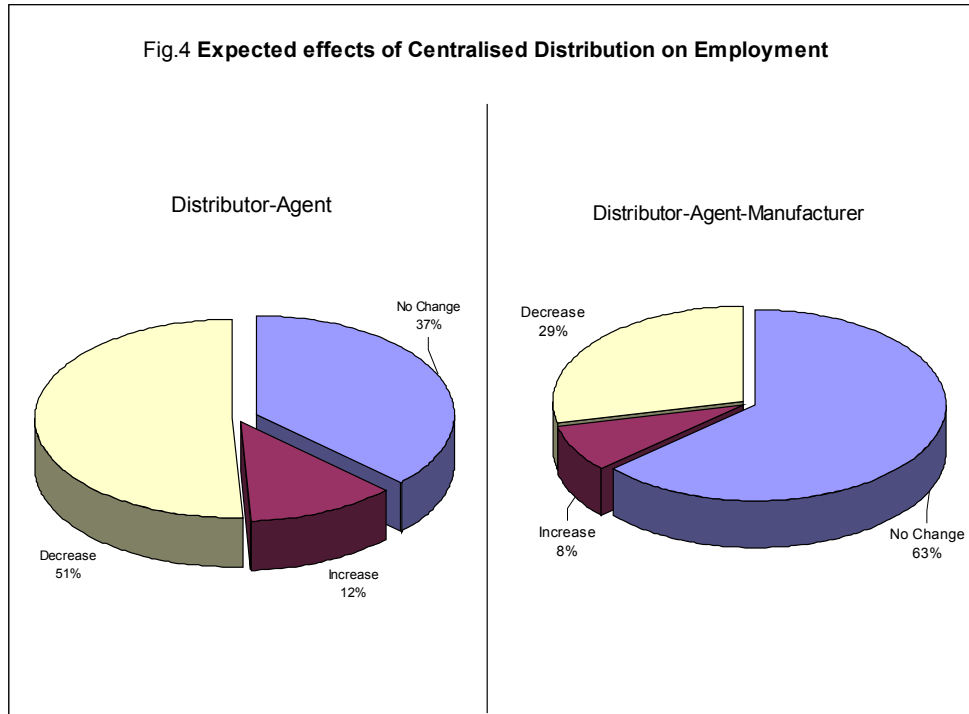
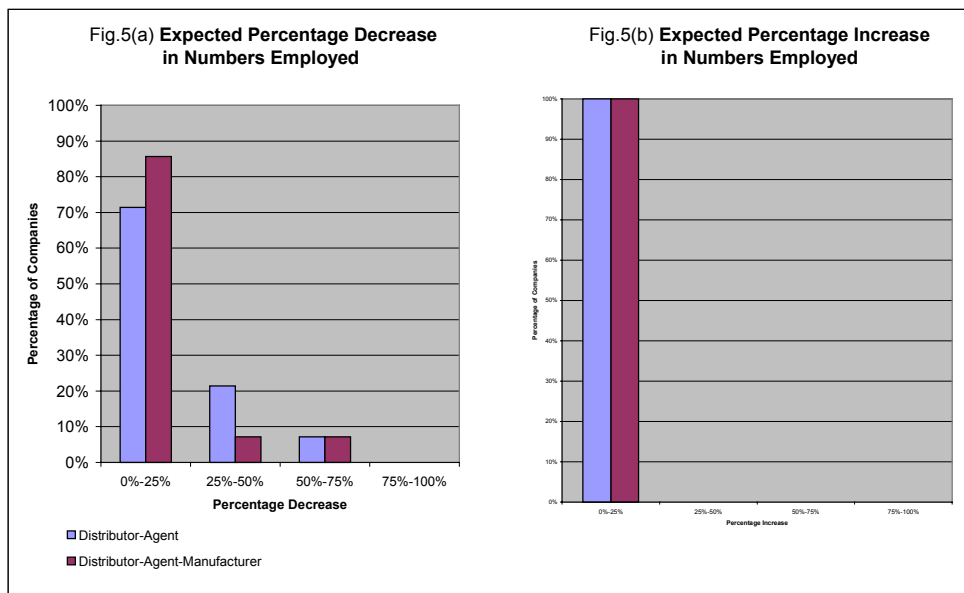


Figure 5 indicates the extent to which respondents estimated employment levels would change.



The agents and distributors were not quite as pessimistic about the impact on employment levels as they were about the impact on turnover, with 71% expecting the decrease to be up to 25%. In the case of distributors and agents with manufacturing, 86%

expected the decrease in employment to be up to 25%. As with turnover, the optimists from both groups believed the potential increase in employment to be modest.

Possible Strategic Responses

Faced with this challenging situation, respondents were asked what strategies they were considering to address the challenge. Figure 6 below summarises the findings.

Fig.6 Strategies to be Adopted to Address Centralised Distribution

Agents/Distributors	Likely	Unlikely	Don't know
Acquisitions	31%	60%	9%
Mergers	29%	57%	14%
Strategic alliances with 3PL	41%	47%	12%
Strategic alliances with vendors	9%	60%	31%
Strategic alliances with other distributors	25%	40%	23%
Diversification	40%	34%	26%

Agents/Distributors/Manufacturers	Likely	Unlikely	Don't know
Acquisitions	18%	47%	35%
Mergers	6%	65%	29%
Strategic alliances with 3PL	35%	35%	30%
Strategic alliances with vendors	6%	65%	29%
Strategic alliances with other distributors	24%	29%	47%
Diversification	41%	24%	35%

The main finding from these data is that the majority of respondents are either unlikely or do not know whether to adopt any of the stated strategies. Of the possible strategic options suggested diversification or strategic alliance with a third party logistics provider seem to be the most likely to be adopted. The agents and distributors are more positive about adopting some sort of strategy than those with a manufacturing element. This is hardly surprising as the manufacturing group feel less threatened by centralised distribution.

Findings and Recommendations

Distributors and agents represent a significant sector in the Irish economy providing employment for over 25,000. The multiples account for over 40% of their business. The introduction of centralised distribution by the multiples is an inevitable consequence of increased competition in the retail sector. Distributors and agents will be impacted upon by the introduction of centralised distribution and the majority estimate that the impact will result in lost revenue and loss of employment of up to 25%. This represents a potential 6000 jobs lost. This makes the issue of significance in national economic terms.

The majority of distributors and agents have no strategy for dealing with the challenge. The cost of regional deliveries and service levels could be negatively impacted by the introduction of centralised distribution. This makes it an issue of significance in terms of regional development. Irish suppliers might also be impacted by centralised distribution if as a result it becomes economically justified to import full loads from outside Ireland to a central location.

There is a need for an urgent strategic response to this serious challenge. One possible approach would involve the holding a series of 'Scenario Building Workshops' to be conducted regionally with the objective of creating some strategic visioning. Such workshops would be non-threatening yet will tease out strategic visioning and the need for a co-operative approach. Arising from the scenario building, those companies interested in taking further the co-operative strategic response will need an independent body to work with the companies to facilitate the process of working together. Distributors and agents should be encouraged to invest in appropriate training which would encourage a flexible response to strategic issues such as centralised warehousing. Part of the output of the strategic visioning will be the need for companies affected to find substitute markets for their resources and expertise.

Conclusions

The issue of centralised distribution is a logistics issue, and therefore the recommendations outlined above have a supply chain bias. The recommendations all require a degree of co-operative effort between traditionally competing organisations. This will require a significant change in thinking and approach by the companies involved. The impact of centralised distribution on distributors and agents is a strategic issue. The ability to deal with strategic development is an internal management capability. Developing this management capability, facilitating the change in traditional management thinking, will be a critical success factor.

Centralised distribution by multiple retailers is a development which has the potential to have a serious negative impact on a business sector which plays a key role in the national economy. The adoption of the recommendations contained in this report will help minimise the threat. In the two years since the survey was conducted², NITL has worked with several companies in the food supply chain in an effort to address the serious issues raised in this article. This experience reinforces several of the key findings and recommendations outlined earlier. However, it is encouraging that many companies have embraced several of the suggested approaches. A start has been made but much remains to be done if sustainable success is to be achieved.

² The survey outlined in this article was carried out in 1999.