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SYSTEMS OF STEERING THE MARKET AND ITS CHANNELS

Problems of distribution and especially functioning of the so-called market channels (distribution channels) were till recently largely by-passed by marketing, which was focussing its attention on problems of the product strategy and promotion systems. Without going any deeper into causes of recently enhanced interest taken in this sphere of activity by Western companies, we shall point out here the reasons accounting for increased interest taken also in Poland in distribution problems. Unstable equilibrium in a number of branch markets, oftentimes changing into deep predominance of demand over supply (despite launching of numerous interventions aimed at increasing supply) consolidated a conviction among a part of economic practitioners that it is necessary to orientate the economy and its socio-economic strategy at distribution (contrary to product or consumer orientation) as a leading political and economic directive<sup>1</sup>. While treating the distribution sphere as a bottle-neck of the reproduction process, attempts are made at increasing its effectiveness through rationalization of functioning of distribution channels forming an organizational macrostructure of the market. These are just some of the measures being taken. They together represent a new market concept constituting a stage between production and marketing orientation of market participants' behaviour. However, the way in which market problems are solved is different from that applied by both the selling strategies. Market participants implementing distribution concept of the market proceed from an assumption that production companies turn out products corresponding

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<sup>1</sup> See I. Rutkowski, W. Wrzosek, *Marketingowa strategia sprzedaży* (Marketing Selling Strategy), Warszawa 1970.

What conditions would the market steering system have to fulfil to promote innovations?

The economic literature lists the following indispensable prerequisites of systems type:

1. existence of external pressure in relation to companies, households etc.,

2. extension in the economic calculus system of the effects accounting period (application of generally more long-term orientation in activity of an economic organization), which will allow to include into the calculus both costs of risk-taking which innovations always involve and make possible determination of effects of innovations and creation of proper safeguards against risk,

3. linking of wage system (including special incentives for innovators) with real progress in management effectiveness,

4. promotion of such principles of market relations and fixing of prices and margins that innovations in products, their distribution and promotion systems would bring economic justification of investors' benefits, and what is more, force them to seek new innovations<sup>8</sup>.

## 2. PRESENT (DIRECT) MANAGEMENT SYSTEM OF MARKET AND ITS CHANNELS

We shall now list basic features of the market channel being important from the point of view of buyers segments (intermediate and end users) and which are submitted to influence exerted by economic units on the management system of the market and its channels. These are:

I. Supply conditions, and especially: 1) type of stores, 2) location of trade network, 3) forms of selling, 4) additional services;

II. Vertical systems of market channels, and especially 1) number of real levels of products flow, 2) number of information flow links;

III. Horizontal system of channels including 1) number of market participants at a given level of goods turnover, 2) production profile of producers, 3) trade profiles of trade companies, 4) organization of trade, informative, banking and financial services connected with products flow;

IV. Market leader and dominance of a market channel;

V. Diversification degrees of market channels launched by a compa-

<sup>8</sup> J. Pajestka, *Determinanty postępu a czynniki i współzależności rozwoju społeczno-gospodarczego kraju* (Determinants of Progress versus Factors and Correlations in Socio-Economic Development of the Country), Warszawa 1974, pp. 218—219.

ny, and especially 1) of distribution channels, 2) informative and financial channels<sup>9</sup>.

The above mentioned features of market channels exist and function objectively regardless of the market steering system and applied instruments of management, while the economy's and market management system, besides the state of economic and market equilibrium, determines the character of particular elements of market channels.

In conditions of market disequilibrium, where the market functions as an element of forced economic growth policy, the Centre applies the following models of steering:

- 1) Steering of the market through goods allocation,
- 2) Steering of the market through control of wages and incomes with a given level and structure of supply,
- 3) Steering of the market through formation of level and structure of supply with a given (controlled) level of wages and incomes.

Steering of the market through goods allocation implies suspension of the consumer's freedom of choice and negligence of all preferences of individual buyers and consumers as well as trade links. In such market the production profiles of manufacturing companies, volume and structure of supply of consumer articles are determined exclusively by the centre and changed on the basis of its arbitrary decisions. The functioning of this market is accompanied by promotion of different forms of social consumption and their considerable expansion giving rise to numerous non-market distribution channels for products and services.

Steering of the market through wage and income control with a given level and structure of supply allows to balance the potential demand and the planned supply although that is possible only at the plan drafting stage (static approach) and it does not afford such possibility at the implementation stage (dynamic approach). That is so because wage systems are only loosely connected with the current supply of consumer goods, and the wage flow does not reflect quantitative and structural changes occurring within it. The market steering on the part of the Centre is performed by separate influencing of each market element with no attention paid to feedbacks between these elements.

Steering of the market through formation of the level and structure of supply with a given (controlled) level of wages and incomes is

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<sup>9</sup> The above mentioned elements of a market channel were analyzed by T. Jaworska in the article *Segmentacja rynku a organizacja kanałów dystrybucji* (Market Segmentation and Organization of Distribution Channels), „Roczniki Instytutu Handlu Wewnętrznego i Usług” 1977, No. 4, p. 49.

the most commonly applied method in conditions of market disequilibrium. Manipulation of demand mainly through supply with the well known rules of the seller's market diminishes the scope of selection and produces a gap between preferences of buyers and activities of producers. While applying this method it is simultaneously assumed that continuous improvement of the production level accompanied by invariability of the remaining market elements will „ultimately” lead to the market equilibrium. Hence appeals to increase market-oriented production, utilization of reserves, and parallel hope that newly launched production capacities will „finally” allow to solve problems of equilibrium in particular branch markets. There are also adherents of gradual (in stages) solution of the equilibrium problem by introduction of new production capacities meant for consecutive market segments. Still the experience of the past years and of other socialist countries shows that attempts at regaining market equilibrium through manipulation of only one market element (supply) do not lead to the desired objective despite tremendous effort of the whole economy<sup>10</sup>.

The above discussed methods of direct market steering either completely bypass or make only very small provisions for manipulation of distribution channels. They treat distribution channels as something existing or they form them in a way optimally facilitating central allocation of products and services in line with principle of maximum comfort of the unit possessing the product at its disposal without taking into consideration the social costs of trade functioning. In this distribution system market channels include also non-trade links such as e.g. work establishments, administrative bodies of residential districts, social and trade union committees etc. In such a situation trade links perform exclusively technical functions of selling products and services on the basis of distribution and allocation lists, coupons etc. No mention is made of purposeful formation of trade network, provision of additional services, differentiated forms of selling etc. Marketing channels are, to a maximum degree, uniformized and extended. There are broken natural ties between links of goods flow and information links initiating this flow. Movement of goods is performed by means of trade channels of wholesale and retailing but decisions concerning the flow are initiated not by companies but by their superior units (amalgamations of producers, provincial authorities and even ministries). Apart from that and, first of all, in situations of acute shortages of supply in relation to demand there arises a trend towards compensating for these shortages in „black” market channels — employing new middlemen

<sup>10</sup> Kramer, Żabiński, *op. cit.*, p. 22—23.

and regaining the equilibrium price but at a very high level. Width of distribution channels (measured only by the number of middlemen in a given trade link) may grow excessively in relation to real needs of buyers.

The market steered by means of non-price (and non-economic) tools must, out of necessity, be characterized with a complex and extended in time flow of goods and market information. That is due to the fact that all informative impulses meet in the Centre and from this place there is sent executive information to producers or trade and service companies. This information system is not only greatly complicated and poorly adaptable but also very expensive as it involves big numbers of employees. Its biggest drawback, however, is the fact that it hampers feedbacks between market needs and producers decisions, as the information flow route from consumers to the Centre and from the Centre to the producer is too long. In the whole information process there participates the provincial level of management which seldom reflects the actual regional needs of buyers. Secondly, companies the production of which is market-oriented, obtaining binding information from the Centre as regards the volume and structure of production, are not able to respond elastically to changes occurring in particular links of market channels.

Summing up this part of our analysis we should state that direct system of steering the market and its channels is highly ineffective. It isolates particular links of these channels submitting them to sectional steering from outside (the Centre). It ensures a supply dictate in each phase of goods flow undermining principles of economic calculus of buyers. In practice it completely hampers segmentation of buyers from the viewpoint of differentiation degree of their needs. It is inelastic and deprived of economic instruments allowing for rapid regaining of equilibrium in particular markets and in their distribution channels. Operating on non-reserve basis it eliminates a possibility of making spontaneous innovations in particular links of market channels.

### 3. BASIC CONDITIONS AND CONSTRUCTION OUTLINE OF INTEGRATED STEERING SYSTEM OF THE MARKET AND ITS CHANNELS

Construction of an integrated steering system of the market and its channels requires fulfilment of some conditions. Among them is a basic postulate represented by the buyer's market as a concept of socio-

-economic policy of the Centre along with its immanent criteria such as e.g. equilibrium of fundamental balances on the national economy scale (e.g. finance, employment, raw materials and materials, processing capacities balances etc.), reduction of a strained rate of economic growth to its real possibilities, provision of a definite system of reserves (being structurally and totally adapted to needs of economic units and their superior units), employment of the principle of application of differentiated management instruments in steering the market and its channels.

Means remaining at the disposal of the market policy may be divided into three main groups corresponding to applied instruments:

1) of the plan, 2) of the market, 3) of direct regulation. It is assumed here that the weight of particular components in the overall market policy is variable and dependent upon many factors including among others: perfection of the plan instruments, skill in using the market mechanism by the Centre, and effectiveness of the applied instruments of direct regulation. The scope of application of particular components of the market policy depends also on features of particular market units and differentiation of branch markets. Thus e.g. a point of contact with the individual peasant farming imposes a requirement of wider application of market mechanisms and smaller application of plan mechanisms and directives. In turn, e.g. formation of the motoring market may be largely carried out by means of plan instruments and, to a definite degree, market instruments. A simplified set of basic instruments of market policy is presented in Table 1.

The plan instruments must *ex definitione* play an important role in the centrally planned economy. Conclusions resulting from the plan for the market policy are each time included into the consumption plan approved for a given time horizon. One of the main targets of the market policy is implementation of the consumption plan envisaged by long-term plans of economic development. Effectiveness of implementation of this objective constitutes one of criteria of assessment of effectiveness of the market policy instruments. It can be simultaneously noted that with planning instructions contained in the consumption plan the market policy would be obtaining main information from the market and international comparisons. It is known at the same time that conclusions resulting from the plan for the current market policy cannot be exclusively implemented by means of the plan instruments. It is necessary to employ a set of complementary instruments, that is such which includes both the plan instruments, market mechanisms, directives and prohibitions. Application of incomplete set of the market policy instruments does not guarantee achievement of desired objectives. That is testified by findings of researches on changes in the consumption mo-

del over the period 1970—1976. They prove that in the period under survey changes in the consumption sphere corresponded to changes in the previous period. A relatively high increase of incomes and reduction of working time did not bring about any bigger transformations in the population's life style and in its consumer expenditure<sup>11</sup>. Similarly there was maintained - despite dynamic growth of incomes — big differentiation of consumption in spatial approach. Development trend of market process, which did not correspond to the plan provisions, was a derivative of inactive market policy during this period.

The market mechanism represents a basic instrument of the market policy. In this field the market policy is based on the existing state of the market and it utilizes the discovered regularities present in the market. Of essential importance for the market policy is knowledge about internal feed-backs occurring between particular market elements as marketing process can be respectively shaped on their basis. There are at least two ways of market manipulation. The simplest one is direct regulation of the market through appropriate system of directives and bans affecting the final stage of the market structure and depriving market subjects of freedom of choice, including also freedom of choice of distribution channels. In this system there are not respected any market laws, which when operating in a distorted system of market relations can distort the proper structure of the market. Full possibilities of utilizing the market mechanism arise with indirect manipulation of initial phases of the market structure by means of environmental elements. The internal structure of the market remains unchanged while a network of internal feedbacks between market elements is preserved.

In Table 1 there is made an attempt at compilation of basic instruments in the integrated system of market steering. Applying the set of market channel features we are briefly discussing below their relationships with instruments of market steering which correspond to them and shape them. Supply conditions, composing the supply system and existing at particular levels of the goods flow, may result from guidelines, patterns, programmes and plans of consumption and marketing (supply) prepared in a smaller or bigger detail by economic subjects of hierarchic, three-level market steering system (the Centre — intermediate management levels — direct market participants). A separate problem is represented here by the market influence, and especially by influence

<sup>11</sup> M. Pohorille, *Model konsumpcji w Polsce. Rynek i konsumpcja w gospodarce socjalistycznej* (Consumption Model in Poland, in Market and Consumption in Socialist Economy), „Prace Naukowe AE we Wrocławiu” 1975, No. 73.

exerted by consumer needs, on one hand, and profitability criteria of company functioning, on the other hand, on formation of the above mentioned planning and programming instruments.

Vertical systems of market channels are created and function both under influence of direct regulation of the Centre and intermediate level of economic management (organizational structures of the market) and on the basis of assessment of their functioning effectiveness. This assessment results from stipulations of the company economic and financial system and conditions of implementation of particular marketing undertakings. Historically and economically determined patterns of consumer behaviour may exert quite a big influence on the market channel structure.

Horizontal systems of market channels must be, to a large extent, shaped in line with requirements posed by marketing and its promotion systems (adjusted to specific features of branch markets). This postulate refers primarily to profiles of economic activity of industrial and trade companies, trade service, information, and financial organizations. Companies directed by market requirements, requirements of their own profitability, and taking into account social preferences represented by the Centre — would independently determine the scope of their activity. A powerful impact on their determination would have to be reserved for general economic and financial conditions of activities of companies as well as for preferences of the Centre expressed through application of proper financial instruments (e.g. interest rate for credits, taxation system, hard currency policy of the Centre). The number of participants in a given link of the market channel is — in turn — determined by centrally defined organizational macrostructures of the market, accepted principles of co-operation between participants of a channel link as well as the authorities delegated to the company in the field of association, establishment of joint ventures or launching of economic ventures (e.g. joint purchases, joint market analysis etc.).

In the directive system of market steering a function of the leader in a given branch market or branch-spatial market is performed by centrally selected industrial or trade companies, while the character of production itself, ties with areas of raw materials and materials deliveries or sales markets play a secondary role. These factors become prominent in construction of integrated system of steering the market participants which assumes big independence of companies. A significant and perhaps dominant role must be then played by economic instruments stimulating integration processes and also determining the kind of „optimum” of integration functions of the market leader such as: incomes of companies and conditions of obtaining them, price and



Table 1

## Basic instruments of market policy

Planning and programming instruments		Economic and market instruments	Instruments of direct regulation
Steering instruments at disposal of the centre: Council of Ministers, Planning Commission, Ministries, Central economic units, Na- tional Bank of Poland...	<p>Pattern, programme and plan of consumption</p> <p>Problem programmes, plans of consumption — and production development</p> <p>Branch and department production and marketing plans</p> <p>Spatial plans of the country's economic development</p> <p>Synthetic and executive financial plans</p> <p>Central level balances</p>	<p>Instruments of financial, budget, credit, capital and foreign currency policy</p> <p>Population's incomes and wages</p> <p>Incomes of economic units</p> <p>Prices and margins</p> <p>Supply and demand systems</p> <p>Export — import</p>	<p>Preferences (subsidies, exemptions) of budget, credit, and wage type</p> <p>Direct regulation of prices, wages, incomes, limits, restrictions</p> <p>Directives, bans, limits of supply</p> <p>Legal system of marketing and production</p> <p>Consumer protection and education</p> <p>Organization of production, consumption and trade spheres</p>
Instruments at disposal of intermediate management level associations and unions of producers, regional authorities	<p>Regional, branch and problem consumption patterns</p> <p>Regional, branch and problem segments of consumption, marketing and production plans</p> <p>Regional plans of spatial economic development</p> <p>Regional segments of financial plans</p>	<p>Supply and demand factors in regional and branch approach</p> <p>Regional consumption balances</p> <p>Negotiation (branch and local market)</p> <p>Prices</p> <p>Instruments of financial policy in regions</p>	<p>Branch and regional management directives</p> <p>Opinions and postulates of social organizations</p>
Instruments at disposal of market participants	<p>Economic-financial system of companies</p> <p>Elements of problem planning</p> <p>Marketing plans</p>	<p>Marketing</p> <p>market analysis</p> <p>product strategy</p> <p>promotion systems</p> <p>distribution systems</p>	<p>Conferences of workers' self-government</p> <p>Store committees, opinions and postulates of social organizations</p> <p>Contacts of companies with environment</p>

margin system affecting shifting of some production and trading functions between the producer and the trade unit, export—import rights.

Diversification degree of market channels launched by companies is determined by general economic and financial conditions, which — in turn — determine the „optimum level” of channels diversification, requirements of promotion and distribution strategy making provisions for already existing patterns of buyers' behaviour as well as respective regional preferences of inhabitants and their regional representative boards.

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#### SYSTEM STEROWANIA RYNKIEM I JEGO KANAŁAMI

W artykule autorzy skoncentrowali swoją uwagę nad systemem zarządzania i dystrybucji jako podstawowej determinanty kanałów rynkowych. Problem ten związany jest immanentnie z systemem sterowania rynkiem i jego kanałami.

Autorzy zaprezentowali kryteria oceny sprawności sterowania rynkiem i jego kanałami oraz wyodrębnili podstawowe cechy kanału rynkowego (z punktu widzenia segmentów nabywców), które są przedmiotem oddziaływań ze strony podmiotów systemu sterowania rynkiem i jego kanałami.

W końcowej części artykułu podjęto próbę zestawienia podstawowych instrumentów planu, rynku i regulacji bezpośredniej w proponowanym, zintegrowanym systemie sterowania rynkiem i jego kanałami.