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SOCIAL AND ECONOMIC IMPLICATIONS OF THE CHANGE IN THE DISTRIBUTION SYSTEM IN FINLAND

1. DISTRIBUTION SYSTEM

Trade is a sub-system of society, the task of which is to eliminate the differences in place, quantity and time between production and consumption¹. It reflects trends in the development of the society with the distribution system having to adjust itself to the changes in the society². The structure of the distribution system acts as a mechanism of adjustment.

The distribution system can very simply be described as a flow of goods between producers and consumers where wholesale and retail trade have functions of their own. In general, we are used to analyzing any distribution system from a point of view of the integration systems in distribution, namely that of wholesale and retail trade; but also consumers have a function of specific importance in the distribution system of trade, as seen in figure 1.

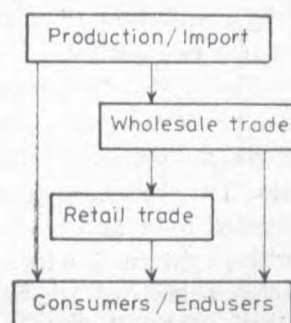


Fig. 1. A general model of the distribution system

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¹ A. Autio, V. P. Holopainen, R. Kanerva, K. Mannermaa, P. Rinne, *Markkinoinnin perustieto*, Tapiola 1975.

² K. Piha, *Yritysympäristön toimenpiteet markkinointikeinojen rajoittajina*, Helsinki 1976.

The purpose of this paper, on one hand, is to interpret effects of changes in the distribution system on the social and economic status of consumers, and, on the other hand, to evaluate the role of consumers as a part of the distribution system. With regard to changes in the distribution system the analysis is based on researches on prospects of home trade in Finland by 1990³.

2. BACKGROUND OF THE CHANGE IN DISTRIBUTION SYSTEM

In 1960 the GNP share in Finland was 10.0 per cent, and by 1975 it increased to 10.3 per cent. During the following fifteen years it is estimated to remain on the present level. In 1975 the share of wholesale trade was 5.1 per cent, and that of retail trade 5.2 per cent. By 1990 the share of wholesale trade is estimated to increase to 5.4 per cent, and at the same time the share of retail trade will decrease to 4.9 per cent.

To understand the changed status of a consumer, the social and economic changes that have taken place in society in the last few decades have to be taken into account⁴. They have effects on the marketing situation of a firm, and further on the distribution system described in figure 2.

The global environment exerts an influence on all activities in the society. The natural system has been changed into a human system with sophisticated culture, high-standard technology, and varied values. This means a new marketing situation, to which a firm has to be adapted over and over again. This can be seen as changes in the distribution system. Factors of demand can be derived from the changes in the structure of the society. They can be classified as location of population, demographic factors, socio-economic factors, and consumption and buying habits of people⁵. They have a strong influence on the system of distribution in trade.

Location of population as a factor of demand means regional changes, such as urbanization and concentration of population in the industrialized areas of a country. It moulds the attitudes and the behavior

³ K. Piha, M. Jalkanen, J. Elomaa, *Kotimaankaupan suuntaviivat vuoteen 1990*, Turku 1979.

⁴ K. Piha, *Environmental influences in the distribution system*, Łódź—Kowary 1977.

⁵ K. Piha, *Mainonta 1980: Muutosnäköaloja ja kehityssuunnitteita* Mainonnan tietokirja by B. Fagerlund and M. Larres (eds.), Porvoo 1973, pp. 17—23.

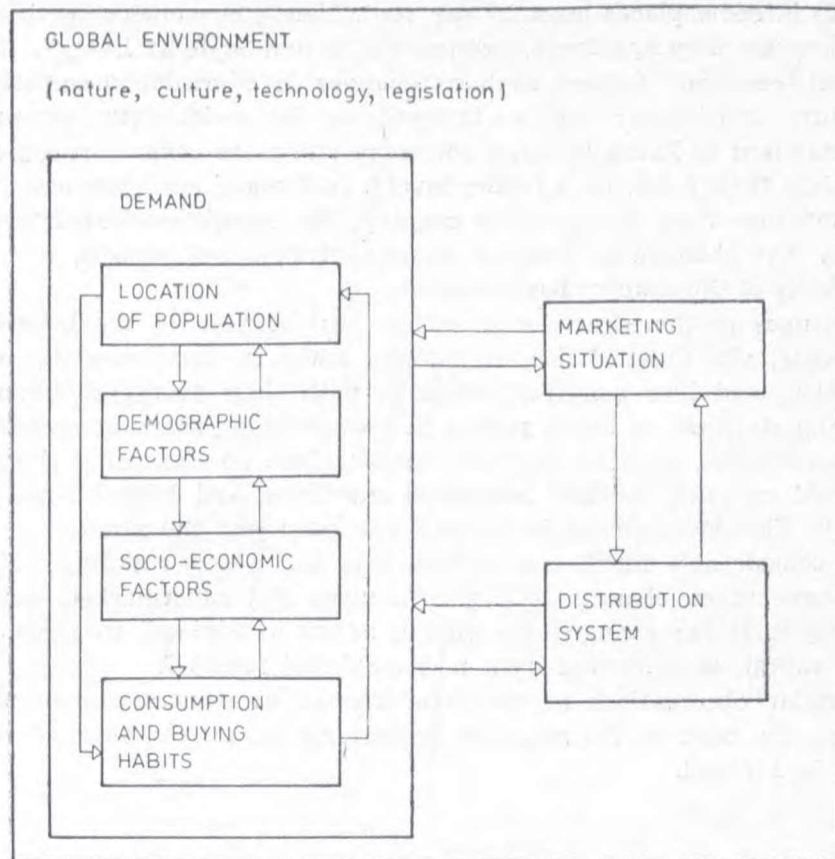


Fig. 2. Factors influencing the distribution system

of consumers. It is a basis of a new style of living⁶. In Finland these areas include the southern and western parts of the country. Sixty per cent of the Finnish population live in urbanized areas, and over eighty per cent in southern Finland.

Demand also varies according to the demographic factors of the population. Demand depends on the structure of age and sex, size of family and curve of living⁷.

In Finland the percentage of aged people is becoming larger and larger, so that more than ten per cent of the population are now pen-

⁶ E. J. Kelley, *Marknadsföring i det moderna samhället*, Stockholm 1969, pp. 56—57.

⁷ J. M. Baker, *Marketing. An Introductory Text*, London 1971, pp. 49—50.

sioned, in some places even 20 per cent. Young consumers are important because they are the forerunners of a new style of living⁸.

Socio-economic factors, such as changes in education, occupational structure, and income have an influence on the social status of people. The standard of living is rising and more and more consumers are able to satisfy their needs on a higher level⁹. In Finland academic education is commoner than in any other country, the occupational structure of society has changed to respond to an industrialized society, and the prosperity of the country has increased.

Changes in the structure of society can be seen in the behaviour of people, viz. what choices consumers make in their everyday consumption, and how consumers manage with their everyday shopping. A rising standard of living results in a diminishing share of necessities in consumption, such as food and textiles, and an increasing share of alternatives, such as cars, household machines, and leisure time services¹⁰. The development in Finland has been just the same.

A considerable number of private cars and a new retailing technology have given chances to buying centres and supermarkets outside the city¹¹. It has changed the buying habits in Finland, to a considerable extent, as evidenced by a new empirical report¹².

Similar observations of the behaviour of consumers can be made also on the basis of the statistics concerning the development of retail trade in Finland.

3. STRUCTURE OF SALES IN RETAIL TRADE

The economic and social development of the Finnish society is clearly reflected in the structural changes of retail trade sales from 1952 to 1974. They are presented with regard to everyday products and special products separately.

Everyday goods are much the same as Kirkpatrick's convenience

⁸ J. R. Kerr, J. E. Littlefield, *Marketing. An Environmental Approach*, New Jersey 1974, p. 80.

⁹ Ch. S. Goodman, *Management Response to Environmental Change in the 70's*, The Environment of Marketing Management by R. J. Holloway and R. S. Hancock (eds.), New York 1974, p. 520.

¹⁰ Kerr, Littlefield, op. cit., pp. 70—71.

¹¹ R. S. Vaile, *Some Concepts of Markets and Marketing Strategy*. The Environment of Marketing by R. J. Holloway and R. S. Hancock (eds.), New York 1974, p. 62.

¹² U. Lehtinen, *Kotitalouksien ostotavat I, II and III*, Helsinki 1978.

goods¹³. They can be divided into two groups, i.e. food and non-food goods. In official statistics they can be separated very roughly according to store types. It can be seen in figure 3.

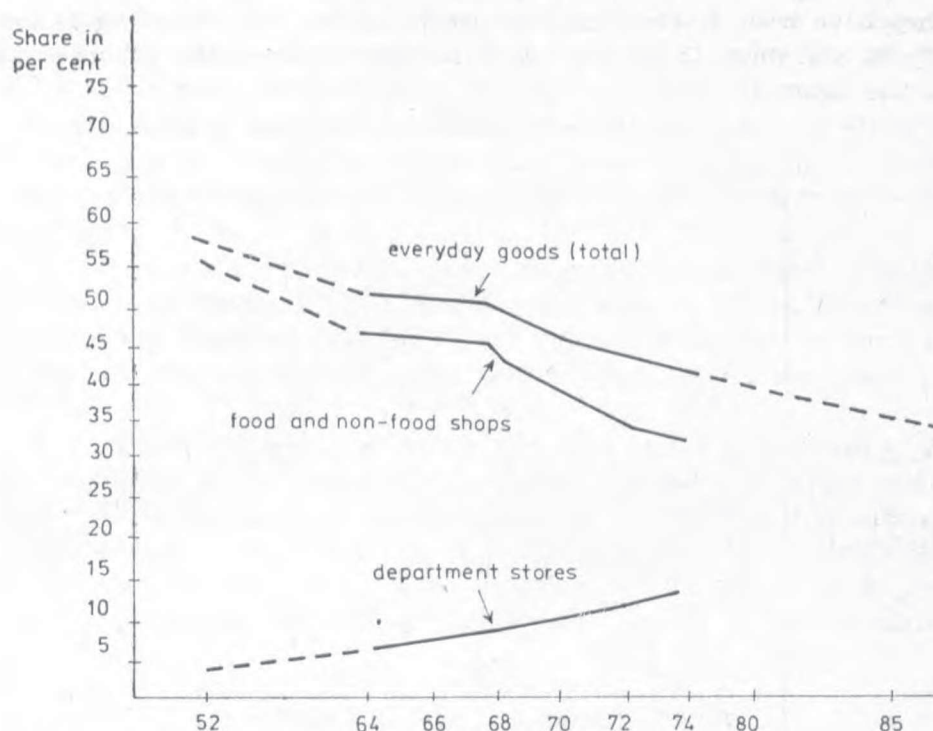


Fig. 3. Development in sales of everyday goods in department stores, and food and non-food shops during 1952-1974

The curves disclose clearly the following tendencies:

a) The share of everyday goods of private consumption is decreasing slowly. It confirms a higher standard of living when everyday goods represent a smaller share in the satisfying of human needs than before.

b) The decreasing share of sales of food and non-food stores gives evidence of the so-called shop-death. It is connected with regional changes of society when villages in the countryside are losing their population to cities and industrial centres.

c) A department store — incl. super markets and auto-markets — is an expanding channel of distribution that has come to replace the

¹³ C. A. Kirkpatrick, *Advertising: Mass Communication in Marketing*, New York 1964, p. 5.

traditional next-door store. The share of sales of department stores is predicted to grow over the next fifteen years because of the fact that they will increase their assortment into the field of special goods.

Special goods correspond largely to Kirkpatrick's shopping goods¹⁴. They have been divided into five groups of branches according to the official statistics. There are big differences between the branches as seen in figure 4.

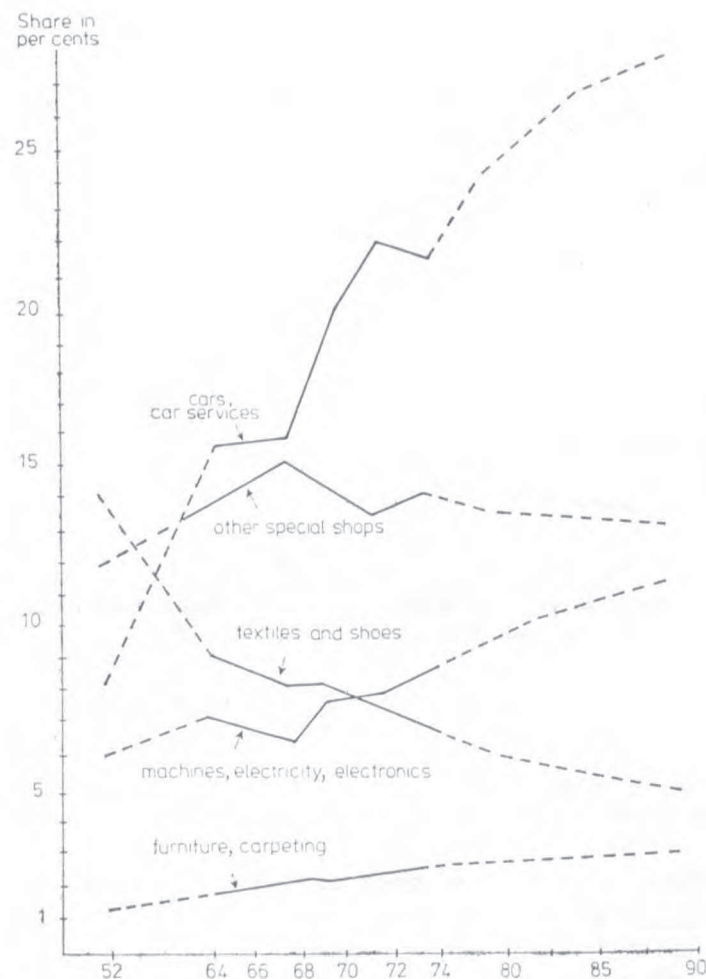


Fig. 4. Development in sales of special goods in shops of respective branches during 1952-1974

¹⁴ Kirkpatrick, *op. cit.*, p. 5.

On the basis of the curves representing the main special branches of special goods the following conclusions can be drawn:

a) The sharp rise in sales of cars and car services represents in itself an industrialized and mobile society. It constitutes a basis for new channels of distribution and makes the consumers free to choose where to buy. The share of car business continues to grow so that by 1990 it will account for more than 25 per cent of the total retail trade.

b) The share of household machines, electric appliances and electronic devices is rising slightly and the trend goes on in the future. It is a proof of the rising standard of living and also reflects new values in the society.

c) The same implication holds good also in the case of heterogeneous group of other stores offering special goods, such as spirits, cosmetics, jewellery etc. Together with the slowly growing branch of furniture it reflects best the new style of living, which will value free time, beauty, and pleasure.

d) However, the share of textile and shoe stores is decreasing, at the beginning of the period very sharply, and for the future more slowly. A decreasing share can be accounted by the fact that natural materials, such as wool and silk, have been replaced by synthetic fabrics¹⁵. On the other hand, more attention will be paid also to the design of everyday wear and purchases will be made at high-standard stores¹⁶.

4. VOLUME OF SALES IN RETAIL TRADE

Shares of sales by branches refer to the hierarchy of consumption in society. Volumes of sales, on the other hand, refer to the buying potential of consumers, which follows the growth of GNP that in Finland during 1961—1975 has been 4.5 per cent a year. Volumes of sales are predicted to develop as presented in table 1.

The branches, which are predicted to grow most strongly, i.e. cars and car services, furniture and carpeting as well as household machines, electrical appliances and electronic devices represent the objectives of well- to-do people who emphasize the quality of life.

¹⁵ B. S. Loeb, *The Use of Engel's Law as a Basis for Predicting Consumer Expenditures*, „Journal of Marketing” July 1955, pp. 20—27.

¹⁶ P. Martineau, *Social Classes and Spending Behavior*. The Environment of Marketing Management by R. J. Holloway and R. S. Hancock (eds.), New York 1974, p. 199.

Table 1

Volumes of sales by branches in retail trade in 1974, and predictions for the years 1980, 1985 and 1990

Branch	Sales in Billions of Marks				Yearly growth 1974—1990 in per cent
	1974	1980	1985	1990	
Department stores, food and non-food shops	14.9	17.9	19.9	23.1	2.8
Textile and shoe shops	2.2	2.5	2.8	3.2	2.5
Household machines, electrical appliances, and electronic devices	2.8	3.7	4.7	5.8	4.6
Furniture and carpeting	0.7	0.9	1.1	1.5	4.4
Cars and car services	6.9	9.6	12.3	15.5	5.2
Other special stores	4.4	5.1	6.1	7.2	3.2
Total	31.8	39.1	46.9	56.3	3.6

The branches, on the other hand, which are predicted to grow more slowly than average, i.e. food and non-food products, textiles and shoes as well as other special branches, refer to the diminishing significance of the type of living in the old-time society.

The same tendency can be seen also in the figures concerning the quantity of personnel in retail trade, and the number of stores and shops in different branches. This means that the level of services in retail trade will decline considerably.

5. CONSUMER AS PART OF THE DISTRIBUTION SYSTEM

5.1. LOGISTIC ACTIVITIES TRANSFERRED TO CONSUMERS

Trends concerning the growth of shops during 1964—1974 prove that branches like cars and car services, household machines, electrical appliances and electronic devices are in progress, whereas textiles and shoes, and food and non-food goods have decreased in number, as seen in figure 5.

It is expected that the number of stores in retail trade will — in general — diminish by 1.7 per cent a year during 1975—1990. There are marked differences between the different branches. In the food and non-food branch a big reduction is expected in the number of stores, namely 40 per cent by 1990. Also the textile and shoe branch will have smaller sales premises, the reduction amounts to about 30 per

cent. The increase in other branches, incl. car business, will be much smaller — if any than until today.

This development, the so-called shop-death, is a severe problem in Finland, where it is associated with people moving from the country-

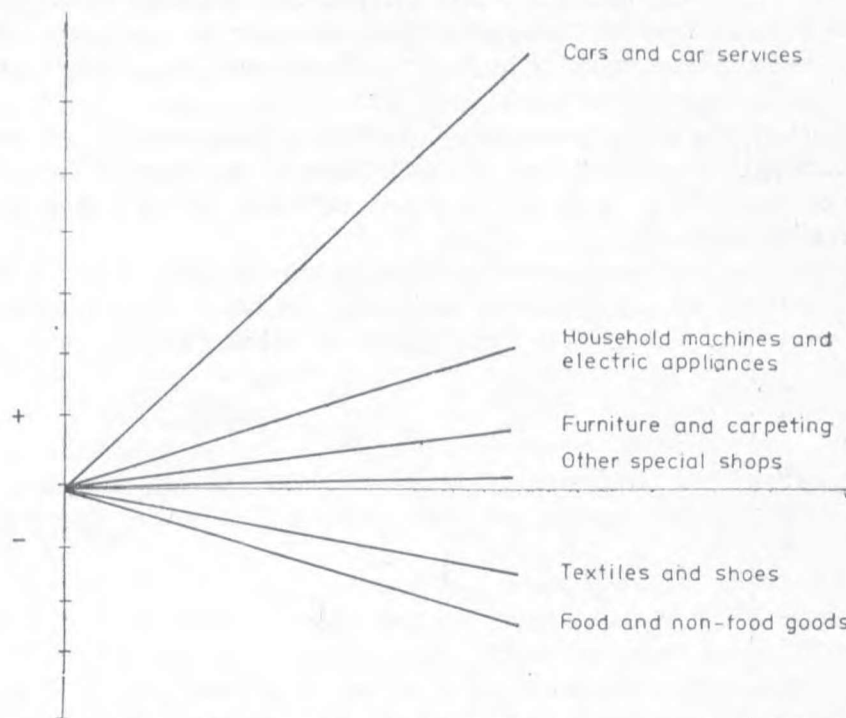


Fig. 5. Trends in the number of shops by branches in retail trade during 1964—1974

-side to urban centers. For those who stay it means worse services in satisfying their daily needs than before. These people are compelled to carry out activities for which trade has originally been responsible.

Two handling activities in particular, have been transferred to consumers. One is the transport of goods, the other is the storage (of goods).

First of all consumers must sometimes travel far to buy what they need, and are thus made responsible for the transport of goods. This involves extra costs in time and money for consumers.

Secondly, consumers tend to buy products in big quantities and keep them fresh for a long time before using them. Now consumers are responsible for storage of goods. This involves extra costs in quality (e.g. food) and money (e.g. refrigerator).

5.2. TRADE SERVICES TRANSFERRED TO CONSUMERS

Tendency in the growth of personnel in retail trade is much the same as that in the number of shops. Branches representing the modern type of living gain more sales people, and branches representing the traditional type of living lose them. In general, the personnel in total retail trade is expected to diminish by 0.2 per cent a year during 1974—1990.

Although the reduction of retail force is not very big, it means in any case deteriorated services in retail trade. It is associated with the crisis of profitability in firms. Personnel service in stores will be compensated for with other alternatives.

There are two alternatives to make up for the shortage of labour in retail trade. One is part-time labourers, the other mechanization of shop work, i.e. self-service. Both means of rationalization lessen the

Share of part-time workers

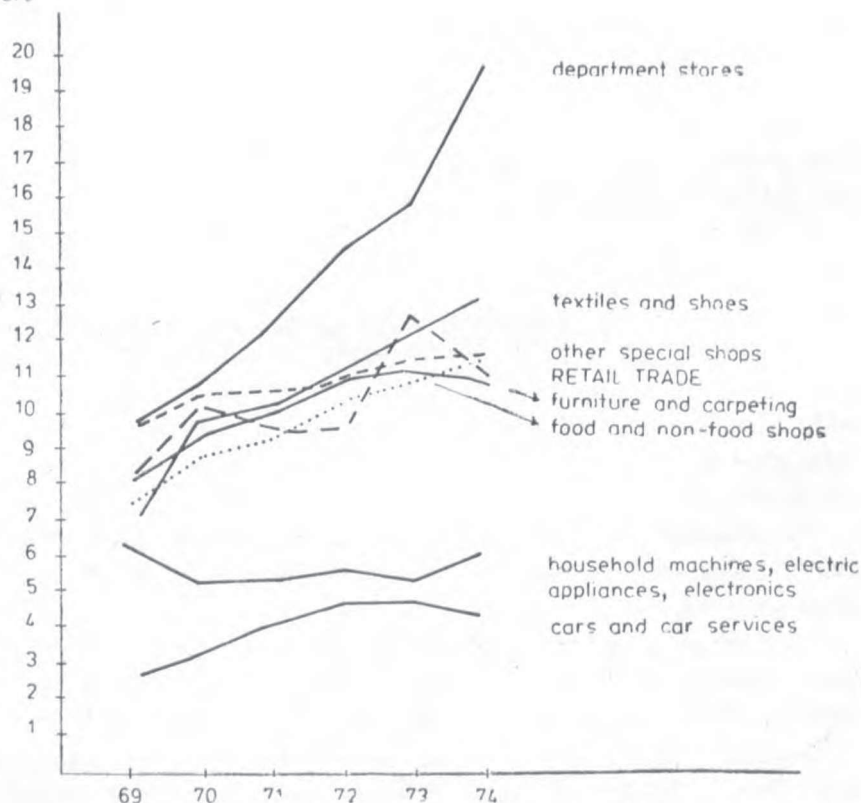


Fig. 6. Trends in the development of shares of part-time labour by branches during 1969–1974

amount of personnel services in shops. This might be called „contact-death”.

There are big difference by branches in the demand for part-time labour in retail trade. Typical features can be seen in the development during 1969—1974, as seen in figure 6.

It seems apparent that the possibilities for the use of part-time help differ very much from branch to branch. It depends partly on the variations in demand, partly on the professional skills required in certain branches. In any case, the use of part-time labour in retail trade is predicted to increase considerably in the future, as presented in table 2.

Table 2
Share of part-time labour of home trade (%)

Home trade	1975	Forecast		
		1980	1985	1990
Retail trade	14.8	19.0	22.0	25.0
Wholesale trade	1.9	2.0	2.2	2.4

Thus the number of half-skilled or unskilled sales personnel in shops will increase. Customers have to manage on their own when shopping.

The self-service system means that most activities associated with the selling process in shops will be transferred to customers. They must actively acquire the necessary information about goods. They seek suitable alternatives of the products available, and compare prices and qualities. They make decisions, collect goods, even pack them. All these steps belonging previously to the sales personnel, in the new delivery system belong to the consumer.

The self-service system has rapidly expanded in Finland as well as in other Scandinavian countries. See figure 7.

It seems apparent that there is a peak in the curve after which the increase of self-service shops will not continue. In Finland where the need of rationalization still prevails it is predicted that this peak will not be reached until 1985.

To accomplish the self-service system there are three kinds of steps of rationalization in retail trade. There are technology, packaging and the ground-plan of the shop. Modern technology has brought with it refrigerators, refrigeration rooms and automatic weighing-machines in shops. It has introduced also automation in stock and cash control. The consumer must be able to manage with these technological devices.

Development in the field of packaging is a basis for the self-service system. The most important functions of packaging are protection,

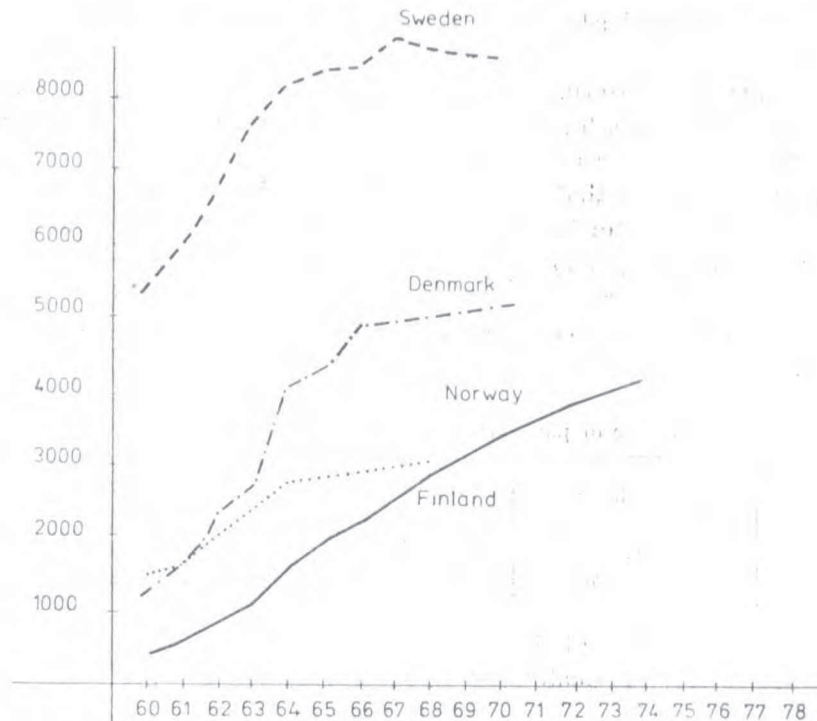


Fig. 7. Trends in the development of the self-service system in the food branch in Scandinavian countries during 1960—1975

identification, sales appeal, and economy¹⁷. They give the necessary information for a customer to close the purchase. Sales personnel is not needed.

Design of the ground plan of a shop is also an important prerequisite for the self-service system. To find the commodities a well-planned thoroughfare in the shop must be designed. It means decisions concerning shelves on the walls as well as stands and point-of-purchase materials in the middle¹⁸.

This merchandising activity is part of advertising which has been developed to replace personal service in the buying process.

It has to be born in mind that rationalization of any kind of technology is expensive and heavy investments are needed to make use of it. Still it is expected that the level of automation will increase in the future.

¹⁷ Kirkpatrick, *op. cit.*, pp. 93—94.

¹⁸ Kirkpatrick, *op. cit.*, p. 291.

6. CONCLUSION

Changes in society are basic factors determining consumer demand. The distribution system is influenced by the location of people, demographic factors, socio-economic factors, as well as consumption and buying habits of consumers. A part of the distribution system also involves consumers.

The structure of sales by branches in retail trade reflects the consumption structure of the whole population. In addition one volume of sales reflects the buying potential of consumers. According to the official statistics in Finland it is easy to ascertain that there are branches in retail trade, like cars and electric household machines, which represent a future life-style, and branches, like food and non-food retailing as well as textiles and shoes, which refer to the standard of living of yesterday.

The role of consumers as part of the distribution system is a conspicuous feature of the new situation. It is associated with the decreasing number of shops and personnel in home trade. Therefore, consumers have to take responsibility for some activities in the distribution process which originally are performed by retailers. Transport and storage of logistic activities as well as information acquisition, collection of goods, and packaging will be transferred to customers. The solution is a self-service store, a symbol of mobile society and high technology.

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SPOŁECZNE I EKONOMICZNE IMPLIKACJE ZMIAN W SYSTEMIE
DYSTRYBUCJI W FINLANDII

W opracowaniu dokonano oceny wpływu zmian w systemie dystrybucji w Finlandii na społeczną i ekonomiczną pozycję konsumentów; przeanalizowano także rolę konsumentów jako element systemu dystrybucji.

Zmiany w tym systemie rozpatrzono na podstawie prognozy rozwoju handlu wewnętrznego w Finlandii do 1990 r., która zakłada wzrost roli handlu hurtowego, kosztem detalicznego, w procesie tworzenia produktu narodowego brutto. Dużo miejsca poświęcił autor również czynnikom kształtującym system dystrybucji zwracając szczególną uwagę na przewidywany przyszły wzrost roli konsumentów jako integralnej i stale rosnącej części systemu dystrybucji.