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José M. Ferre-Trenzano *

SPANISH DISTRIBUTION CHANNELS: THEIR CURRENT STATE AND CONSEQUENT IMPLICATIONS IN MARKETING MIX STRATEGIES

1. SUMMARY

The main objective of this paper is to describe the structure of Spanish distribution channels by means of specific figures and supplementary explanations. Once this description has been given, the influence of this structure upon the establishment of manufacturers' sales strategies will be studied.

This influence will be analyzed within the framework of specific time periods and specific stages in the development of product marketing in Spain.

Finally, and in the light of the anticipated evolution of distribution channels, the paper will atempt to make some general predictions for the future.

Although the channels are objectively and independently analyzed here, we will soon see how these channels relate to other marketing factors and how they tend to be transformed by the various stages of the marketing process, in which they must be considered as only a single part of the group of variables which affect product marketing and never as isolated and independent facts.

Beginning with a general analysis of distribution channels, the paper later becomes more specific as regards marketing channels for food, cosmetics, household products and toiletries i.e. the largest fields of consumer goods (fast moving products). Manufacturers of these products tend to be pioneers in marketing techniques.

* Higher School of Administration and Business Management Barcelona (Spain).

2. DISTRIBUTION CHANNELS: THEIR STRUCTURE AND EVOLUTION

WHOLESALE CHANNELS

There are a great many wholesale outlets in Spain, particularly those dealing with food products, which account for almost 40% of the total number of wholesalers in the country.

Here it must be clarified that „Food Products" does not refer to wholesalers who are exclusive distributors of food products as such, but to those who specialize in serving retail grocery stores. This is a very different matter as these wholesalers not only sell food products but also household products, cosmetics and toiletries. Food products, however, do constitute the greatest part of their business.

The two basic characteristics of Spanish wholesale channels are:

a) the traditional sales form, i.e. the wholesalers' relationships with their retail clients are maintained by travelling salesmen or agents who normally make regular visits to the retail outlets, later sending the merchandise ordered and offering them terms of credit.

„Self-service" sales are as yet very infrequent. The wholesaler who employs this type of merchandising exhibits a selection of products from which the retailers may choose whatever they need, generally paying cash. Only in the case of food wholesalers is this Cash and Carry system used extensively. See Table 1.

Table 1

Structure of wholesale distribution channels
(By Fields of Activity and Form of Sale)

Materials	Total		Form of sale			
			traditional		self-service	
Total	38,926=100%		38,829=100%		97=100%	
1. Raw Materials	4,626	12%	4,622	12%	4	4%
2. Minerals, Chemicals	2,635	7%	2,623	7%	12	13%
3. Wood, Construction	4,775	12%	4,767	12%	8	8%
4. Industrial, Materials,	2,330	6%	2,325	6%	5	5%
5. Furniture, Hardware	2,130	5%	2,126	5%	4	4%
6. Textiles, Garments	2,361	6%	2,361	6%	—	—
7. Food Products	15,312	39%	15,254	39%	58	60%
8. Pharmaceuticals	1,007	3%	1,007	3%	—	—
9. Various Products	3,750	10%	3,744	10%	6	6%

Source: Distribucion Actualidad (December 1975).

b) Spanish wholesale channels are generally a „family-type" business (less than 5 persons employed). As will be seen in Table 2, 2,76% of all wholesalers fall into this category.

Table 2

Structure of wholesale distribution channels
(By Number of Employees)

Materials	Total	Number of Employees			
		0–5 (family type)	6–20 (small)	21–100 (medium)	more than 100 (large)
	in per cent				
Total	100	76	19	4	0.1
1. Raw Materials	100	89	10	1	n
2. Minerals, Chemicals	100	70	23	6	0.2
3. Wood, Construction	100	76	20	4	n
4. Industrial Materials	100	56	34	9	1
5. Furniture, Hardware	100	60	32	8	0.3
6. Textiles, Garments	100	54	36	10	0.1
7. Food Products	100	84	14	2	n
8. Pharmaceuticals	100	50	33	16	1
9. Various Products	100	75	21	4	0.1

Note: Percentages should be read horizontally.

I feel that the two aforementioned characteristics clearly reveal that problems of profitability must exist. If these wholesalers do not become more concentrated in the future, they may well cease to exist. Furthermore, it seems unlikely that, in their present form, they can actually fulfil their aims of „distributing products to retailers within an acceptable period of time and with a spirit of service".

It is obvious that the Spanish wholesale structure must cause great problems to the manufacturer both in terms of negotiating mutual agreements and in terms of the cost of maintaining contacts with the wholesaler dealers.

RETAIL CHANNELS

Tables 3 and 4 show the retail structure, and the following conclusions may be drawn from them: there is a very great number of retail dealers and they are family-type businesses (97.2% of all retailers employ fewer than 5 people).

This breakdown of retail channels clearly indicates that many of them must be unprofitable or, at the very least, that it must be very costly to serve them all. Furthermore, their structural characteristics indicate that it would be extremely difficult for many of them to evolve.

Nonetheless, these general statistics may be deceiving inasmuch as retail channels can be subdivided into four greatly varied categories:

a) those which are definitely not profitable and do not known how to

Table 3

Structure of retailer distribution channels
(By Field of Activity and Type of Personnel Employed)

Goods	Total		Type of Personnel (%)*		
			Family	Salaried	Mixed
Total	391 434 = 100%		77	8	15
1. Food, Beverages, Tobacco	229,665	59%	87	5	8
2. Pharmaceuticals	24,449	6%	63	8	39
3. Garments, Textiles	59,195	15%	66	10	24
4. Household Appliances	30,436	8%	58	14	28
5. Vehicles and Accessories	8,312	2%	36	30	33
6. Book and Stationery Shops. Furniture	8,645	2%	67	12	20
7. Others	28,497	7%	71	10	19
8. Company „Economats" Self-Service and Department Stores	2,235	1%	24	49	27

* The percentages in these three columns should be read horizontally.
Source: Informacion Comercial Española, March 1974.

Table 4

Structure of retailer distribution channels
(By Employees)

Number of retailers	Total 391 434 = 100%
0–5 employees (family-type)	97.2%
6–20 employees (small business)	2.6%
21–100 employees (med. business)	0.2%
more than 100 (big. business)	—

adapt to the evolution of the market. These firms are gradually disappearing;

b) those which have restructured and adapted to new times, even going so far as to apply aggresive purchasing policies which when the retail channel is larger than the manufacturer, often puts the former in a more favorable position than the latter;

c) channels which are currently undergoing transformation or which have sufficient intellectual potential to enable them to soon institute this process,

d) those which have found their niche within their limited size. Although very small, these channels justify their existence by offering a specific service, i.e. specialized shops which are unique within their local framework.

In any case, it is abundantly clear that the peculiarly Spanish structure of our distribution channels constitutes a great challenge to the manufacturer who must work with them.

FOOD PRODUCTS SECTOR (RETAILERS)

Having briefly analyzed the general structures of wholesale and retail channels, I shall now concentrate on the Food Products Sector which, as was previously explained, represents those retail outlets which sell food as well as cosmetics, household products and toiletries. This sector shows the highest rate of transformation and is also the most complex.

I will examine this sector in terms of these retailers' various forms of „association — organization — sales objectives". These dealers may be categorized as a) voluntary chains, b) consumer cooperatives, c) company related „Economats", d) ordinary grocery stores.

Voluntary Chains. These chains are joint associations of wholesale and retail dealers. Note that in this case the wholesaler is also involved in the distribution process, thus making the cycle complete.

The main advantage offered by these chains is the existence of a perfectly planned organization equipped with the necessary means (human, material and professional) to fulfill their aims.

Table 5 shows the 1975 potential of these chains. It must be explai-

Table 5

Breakdown of voluntary chains

Centra	Distribution Centers	Warehouse Surface in Square Meters	Associated Retail Dealers
Totals	210	616,886	61,870
Centra	45	79,570	10,704
Ifa Española	55	165,842	14,117
Iga Iberica	14	34,250	1,941
Spar	25	93,610	9,764
Una-Vivo	43	132,580	16,421
Vege	28	111,034	8,923

Source: Comisaria de Comercio Interior, 1975.

ned that each one of the „Distribution Centres" consists of various wholesale dealers, most of whom employ the Cash and Carry system of sales.

Voluntary Chains are on the upswing in Spain. They are constantly progressing and have clear ideas as to their future expansion and development. They also offer retail dealers and interesting way out of their current state of stagnation.

Table 6 shows the Chain stores share of the total volume of sales in various European countries (Note that in the analysis, voluntary

Table 6

The share of purchasing groups and voluntary chains within independent trade (Comparative European Study)

Country	% of Associated Shops in relation to total number of retailers (as of 1.1.1977)	% of total retail sales (1976)
Spain	28.1	36.8
France	40.1	81.8
Italy	18.5	27.0
Germany	82.6	91.2
Holland	74.6	86.0
Switzerland	72.8%	83.2

Source: Nielsen International, Inc.

Purchasing Groups have been included in the category of Retailers). Given the increasing popularity of the Chain system in other parts of Europe, it is to be supposed that the number of voluntary chains in Spain will continue to increase in the future.

Consumer Cooperatives. This type of establishment is limited exclusively to holders of cards which are generally obtained by paying a monthly quota.

Table 7 gives the basic data for the Cooperatives which exist in Spain.

Table 7

General situation (in 1975) of Consumer cooperatives in Spain

Number of Cooperatives	491
Number of Members	546,113
Annual Sales (in millions of ptas)	**10,965**
— Food Products	7,051
— Non-food Products	3,914
Average Annual Sales per Member (in pesetas)	20,600

Source: Comisaria de Comercio Interior.

This type of sales system is developing well, although unevenly, throughout the country. At one end of the scale we find long-established cooperatives which have not evolved and whose sphere of activity is very limited, and on the other we have — as in the case of the Basque Country — very modern, fast growing cooperatives such as EROSKI, with an extensive network of self-service stores and a vigorous sales organization. The following are data from this Group for 1978:

Sales	7,700 million pesetas
Sales Area	20,000 square meters

Warehouse Area	7,500 square meters
Consumer members	60,000
Employee members	588

Obviously, cooperatives like EROSKI are a great challenge to manufacturers who cannot treat them a „just another customer", but must instead negotiate extensively with them. Cooperatives are definitely an important pressure group inasmuch as they are able to do — and actually to do — their own marketing, „acquiring products which interest them more than the products generally offered".

Thus, the Cooperatives' are not limited simply to distributing products which provide them with generous margins, but may also offer products which their management feel „contribute something new to the members of the cooperative" or articles with an acceptable price--quality ratio'. Thus, the Cooperatives are dynamic and active in their purchasing system.

Getting back to the case of EROSKI for a moment, special mention must be made of the magazine the Cooperative distributes to its members („La Revista del Consumidor Vasco") and which offers information and advice on available products.

Grocery Stores. The following analysis of grocery stores is based on information kindly provided by A.C. Nielsen Company of Spain. Before beginning the actual analysis, certain definitions must be made in order to better understand the situation.

Table 8

Evolution of grocery stores and their breakdown into traditional and self-service shops (%)

Grocery stores	1969		1973		1975		1977	
Total	128,428 = 100%	100*	122,654 = 100%	−5*	118,943 = 100%	−7*	118,190 = 100%	−8*
Self-Service	4	100	7	+76	7	+90	9	+139
Traditional	96	100	93	−8	93	−11	91	−13

* The percentages in these columns should be read horizontally.

Source: A. C. Nielsen Company — Spain.

Grocery Store — „Any shop which offers more than 6 product classes from a list of 11 classes of leading products". Thus, those ill-defined shops which sell many things other than food products are automatically eliminated from this category. The shops in this category tend to be small businesses.

Hypermarkets — „These are self-service retail stores which are open to the general public and which have a shopping area of more than 2,500 square meters".

Supermarkets — „This group includes self-service stores with a minimum of 3 check-out counters and a shopping area of less than 2,500 square meters".

Self-Service Stores — „These are retail stores with 1—2 checkout counters".

Table 9 shows the current situation of grocery stores and the trends

Table 9

Types of grocery stores and their share of the total sales volume (As of 31 December 1977)

Grocery stores	Total Stores 116,551 = 100%	Total Volume of sales (in millions ptas) 305,701 = 100%
Hypermarkets	24 = 0.02%	31,374 = 10.3%
Supermarkets	502 = 0,4%	34,134 = 11.1%
Self-Service Stores	10,195 = 8.7%	58,768 = 19.2%
Traditional Stores	105,830 = 90.8%	181,425 = 59.3%

Source: A. C. Nielsen Company — Spain.

they have experienced during the past several years. These trends can be summarized as follows: the total number of ordinary grocery stores is decreasing (this confirms my previous statement regarding the disappearance of unprofitable small stores) while, on the other hand, the number of self-service outlets is on the rise.

Table 10 shows the situation as of the end of 1977 and reveals the

Table 10

Table of equivalents of the four types of grocery stores (Basis: Volume of Sales)

Food products (total)	Toiletries and Articles for Personal Hygiene (total)	Low-Suds Detergents	Toothpastes
1H = 17.6S 1S = 6.3A 1A = 3.7T	1H = 11.6S 1S = 13.8A 1A = 4.6T	1H = 21.8S 1S = 12.7A 1A = 3.6T	1H = 13.9S 1S = 13.3A 1A = 4.1T
1H = 410T	1H = 736T	1H = 997T	1H = 758T

Key: H — Hypermarket, S — Supermarket, A — Self-Service, T — Traditional
Source: A. C. Nielsen Company — Spain.

importance of Hyper- and Supermarkets and the power of the self-service system. The table shows that: while 9.1% of the shops had a volume of sales of 40.6% the remaining 90.8% accounted for a volume of 59,4%(!)

Table 11 shows the equivalents of the different types of stores as regards the total volume of sales. In other words, the volume of food products sold by a single hypermarket is the equivalent of that of FOUR HUNDRED TEN ordinary grocery stores.

Table 11

Future prospects of retail food channels (%)

Food channels	1977	1980	1985
Totals	116,551 = 100%	103,130 = 100%	94,600 = 100%
A. Evolution in number of stores			
Hyper and- Supermarkets	0.42	0.8	1,7
Self-Service Stores	8.7	12.8	18.0
Traditional Stores	90.8	86.4	80.3
B. Evolution of share in total volume of sales			
Hyper-and Supermarkets	21.4	35	40
Self-Service Stores	19.2	26	33
Traditional Stores	59.3	39	27

Source: A. C. Nielsen Company — Spain.

Table 12 sums up a study made by A. C. Nielsen Co., predicting the future evolution of store types and their share of the total volume of grocery business. The trend towards self-service stores is abundantly clear as is the overwhelming importance which the hypermarkets will have in the future.

Table 12

The marketing mix which manufacturers might adapt in 1985 (%)

Species	1975	1979	1985
Base	100	100	100
Sales-Distribution (network, etc.)	40	35	20
Advertising	20	25	25
Merchandising	2	5	10
Market research	5	5	10
Research development (new products, etc.)	5	5	10
Promotions (Consumer)	20	15	10
Promotions (Trade)	8	10	15

Note: Expenses for the Structure of the Marketing Team are not included here.

It is evident that both the current position and future prospects of ordinary grocery stores are causing manufacturers to think seriously about how these distribution channels should be treated.

3. IMPLICATIONS OF MARKETING MIX STRATEGIES

Now that we have studied the structure of Distribution Channels we shall analyze how this affects the manufacturers marketing strategies for consumer goods.

To do this, we must go back and look at the general context of marketing in Spain, never forgetting that, although distribution channels are an important variable of the marketing mix, they are but a single one of the many factors which play a role in the process.

In any case, I feel that the marketing process in Spain can be broken down into major stages. They are as follows:

THE PRE-MARKETING STAGE (prior to 1965)

General characteristics: Discovery of the concept of marketing, de-was smaller than demand. Technique was more important than commerciality. Everything produced was sold.

Situation of distribution channels: very dispersed large number of channels, but not very professional: family-type businesses.

Strategies at channel level: Practically non-existent. Sales made through free agents or commission agents residing in various parts of the country who offered the products of several companies in a single territory.

THE MARKETING BOOM (1966—1975)

General characteristics: Discovery of the concept of marketing, development of advertising, great upsurge in market research. New product development became highly important; rapid and gratifying progress of dynamic companies which adapted to the new trends in marketing.

Situation of distribution channels: Basically the same as before. However, the first signs of change came with the creation of the first European-type self-service stores.

Strategies at channel level: Suddenly the potential of channels „poorly worked" by free agents is „discovered". This leads to the elimination of the agent and the establishment of extensive networks of salesmen employed by the manufacturer to make direct sales. This results in a great increase in the manufacturers sales costs.

MARKETING IN CRISIS (from 1976 on)

General characteristics: Onset of the energy crisis and, in Spain, the political and social crises. Prices increase as a result of the constant increase in costs. Margins are ever more slim, the consumer is shopping more rationally and learning how to select his purchases. Advertising's effectiveness comes under fire. An increasing urge to cut down expenses results in lower budgets for market research, advertising and training. Unprofitable products are eliminated and there is a frantic search for new products which contribute „something new" to the market (the true implantation of the marketing philosophy).

Situation of distribution channels: The transformation begun in the previous period is now a boom. New channels appear, others — with no particular reason for existing — disappear. Retailers organize themselves into associations.

Strategies at channel level: Manufacturers realize that their sales networks are not only expensive, but also unprofitable because they have not kept pace with the evolution of distribution channels. As a consequence, sales networks are reduced and an attempt is made to improve the quality of the remaining sales force. The major channels of distribution begin to make their strength felt, and the idea of „negotiating" with them takes shape.

4. AN ATTEMPT TO PREDICT THE FUTURE

The future starts today and falls within the period of „Marketing in Crisis" which will undoubtedly continue for a number of years to come.

Before attempting to predict the future, I shall first summarize the facts relative to Spanish distribution atthe present time. I will then predict the strategies which might conceivably be applied as a result of these facts. Finally, I will establish a quantitative marketing mix in order to estimate the influence of these strategies on the general marketing context.

SUMMARY OF FACTS

Many wholesalers are becoming more dynamic, modern and agressive in their sales methods. They offer retail sales networks, thus providing an important professional service. Retailers are adapting to the self-service system and forming associations. The hyper- and super--markets are in constant expansion.

Chains become more popular and can exert effective pressure on manufacturers. For many retailers they are the catalysts of change.

The strong cooperatives are consolidating, forming another pressure group to which serious attention must be paid.

PREDICTABLE STRATEGIES

Elimination of costly sales networks which are out of touch with the reality of distribution channels. The salesman with his briefcase makes no sense at all in a world of computer-run Central Purchasing Offices with a Purchasing Manager... Conversion of the idea of „sale" into the idea of „negotiation". Negotiating will result in operations of interest to both the manufacturer and the distributor.

Not only will the manufacturer go out to sell, but also to buy the distribution services of the wholesaler, the chain. In addition, the manufacturer will be obliged to negotiate for the confidence of the cooperative.

Manufacturers should have independent sales managers within each sales zone or territory.

Point of sale and positioning of the product in the cooperatives and large outlets will be of prime importance. The simple fact of „being there" will comprise a product guarantee for the consumer, and this will have its price.

Merchandising will enjoy a boom. Merchandising techniques must be worked out simultaneously by the manufacturer and the distribution channel. They must study their implantation, their effects and their positive or negative results — using objective means to measure these results.

THE MARKETING MIX

The Table 12 shows the marketing mix which manufacturers might adapt in 1985. These predictions are based upon a study of the current and previous stages in the evolution of marketing.

I must stress here that the established data are approximate and are valid only for comparative purposes and as a point of departure for predicting possible trends. In addition to the fact that no published data on this subject exist, it must also be remembered that the marketing mix for a company which sells food products is different from that of a company which sells household articles and the marketing mix for a multinational corporation is different from that of a domestic company.

It will be seen from the following table that my predictions can be summarized as follows: the costs of sales networks will be cut as well as promotions to consumer. The relative weight of advertising will remain stable, but merchandising, market research and trade promotion (in the form of agreements, collaborations, joint operations) will increase.

It seems quite clear to me that there are three basic reasons why market research will increase: 1) because the development of new products must increasingly be based upon the approval of the consumer; 2) because it will be increasingly necessary to control marketing drives and study their effectiveness, and 3) because it will be absolutely necessary to measure consumer reactions.

My second and final prediction is that the continuing transformation of distribution channels will prove a great challenge to large manufacturing companies, causing them to reflect and make drastic decisions on the following two subjects:

Bargaining vs. traditional sales

Selective merchandising vs. indiscriminate advertising in the major media.

J. M. Ferre-Trenzano

KANAŁY DYSTRYBUCJI W HISZPANII.
STAN OBECNY
ORAZ IMPLIKACJE DLA STRATEGII MIX-MARKETINGOWYCH

W artykule dokonano analizy kanałów dystrybucji w Hiszpanii ujętej w ramy chronologicznych przedziałów czasowych oraz kolejnych etapów rozwoju marketingu w tym kraju. Na podstawie tej analizy autor przedstawił zależności między kanałami dystrybucji a innymi elementami strategii mix-marketingowej oraz etapami procesu marketingowego.

W ostatniej części artykułu autor podjął próbę sformułowania pewnej ogólnej prognozy w zakresie ewolucji kanałów dystrybucji oraz wskazał na implikacje, jakie mogą wynikać z tej ewolucji dla strategii marketingowej.