

# DISTRIBUTION AND ECONOMIC DEVELOPMENT: SOME THOUGHTS AND DIRECTIONS

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## A. Introduction

The purpose of this study is to explore the interrelationship between distribution and economic development. Distribution in this context is viewed both in terms of channel structure (intervening institutions) and physical distribution (functions performed in the channel).

This exploration lacks the vigor of empirical evidence. To this extent, it complies with the existing relative bibliography and body of knowledge. Time series, cross data, multi-country and multi region types of analyses are difficult to conduct, and when they are done they attract criticism. This can be attributed to the complexity of the problem (many variables and factors involved), the inadequate availability of relevant data and, perhaps, the inexistence of the right techniques of research.

## B. Dramatizing the Failure

Assuming that the strategic objective of life is happiness, as measured by the magnitude and composition of the per capita consumption, then, the degree of success in achieving happiness is based on tangible and easily calculated measures of consumption.

Studying happiness on a worldwide dimension, we can observe that its distribution among the various countries still remains uneven. According to a recent report<sup>1</sup>:

“... the fact that some 800 million people are still in absolute poverty — with incomes too low to ensure adequate food or shelter, and without access to essential public services such as education or health care — is a stark measure of how much remains to be done”.

## C. The Need for an All-out Effort

Economic development is an extremely complicated and delicate process and despite the gigantic wave of scientific and multidisciplinary research after World War

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If the black holes and gray areas still exist. The role of distribution in economic development, from the available evidence, is one of these areas.

Referring to a developed economy, Drucker (the influential authority of Management), argued that the distribution function is chaotic, wasteful and mismanaged<sup>2</sup>. There is no reason to believe why the situation in the Less Developed Countries (LDCs) can be different. On the contrary, more chaos, waste and mismanagement should be encountered in the distributive trades.

It might be argued that the relative negligence of distribution is the result of an attitude that openly favored the attention to other areas. This attention, can be operationalized by estimating the amount of scientific work done (books, articles, magazines, etc.) and /or the tangible resources allocated to the non-distributive sectors of the economy. Comparing industrialization (to use one example of a sector which has attracted a tremendous amount of attention) synonymously with economic development is an oversimplification of the problem, because marketing and especially distribution might be overlooked. As Higgins pointed out<sup>3</sup>:

“Certainly the progress of underdeveloped countries depends not only on their attainments in agriculture and manufacturing but also on the development of an efficient marketing system”.

The above thesis is similar to the one taken by Drucker who has called attention to the neglect of marketing in underdeveloped countries in favor of the more “glamorous” fields of manufacturing and construction<sup>4</sup>.

But despite this necessity, distribution is downscaled by most of the development scholars and especially the practitioners who as decision makers allocate resources. This happens because either they don't know the exact functional interrelationship between distribution and economic development (technology barrier) or they don't want to intervene (policy barrier). Kindleberger argued that<sup>5</sup>:

“Whether markets pull development or lag behind it, it is evident that much planning in the area of economic development today neglect distribution”.

In order to obtain rapid and sustained economic growth rates it is indispensable to isolate and study in depth any cause which restricts development. Distribution can be one of these causes. Fortunately, scholars devoted some effort towards this direction. Unfortunately, the desirable details are still remaining in the sphere of ignorance, suspicion or uncertainty.

## **D. The New Approaches**

New approaches to study a discipline can be the result of one or more of the following causes:

- a. Scientific maturity
- b. Attraction of scientists from other disciplines
- c. Need to explain new phenomena

In Marketing, there are two new approaches which are directly related to the in-

terests of our study because they can be effectively used as tools to find the undiscovered and explain the previously unexplained.

## 1. Environmental Approach

Business do not operate in a vacuum. The environment, with all its dimensions (economic, political, social, legal, etc.) is their domain. Bartels gave the following description<sup>6</sup>:

“Environmentalism generally refers to the influence of environment upon the development of systems or organisms, and in Marketing it is understood particularly to refer to the relationship between environment and the practice and development of marketing”.

## 2. Comparative Approach

The term “Comparative Marketing” was introduced in the literature following the expansion of U.S. based multinational enterprises (ME). Carson wrote that<sup>7</sup>:

“Comparative Marketing involves the study of marketing systems, operations and practices in various parts of the world”.

Using the environmental and/or comparative approaches we can try to determine the interrelationship between distribution and economic development.

## E. The Functional Relationship Classified

Marketing related activities and distribution in particular, are not the same at two points of time and geographic space. Channels and logistics evolve through time and differ from country to country.

Wadinambiaratchi, using the comparative approach, studied the marketing channels in nine countries of the world, ranging from Tropical Africa to Japan. His conclusion was that<sup>8</sup>:

“... Marketing structures are reflections of the stage of economic development and more specifically that there is a regular pattern of distribution that is more or less unique at each stage of economic development”.

The implication of the above finding is that the dependent variable is distribution with the independent one being the level of economic development. This relation should hold in a *ceteris paribus* condition.

Knowing the existence of the interrelationship is not enough. What we really need to understand is the evolutionary pattern of distribution.

Carson<sup>9</sup> and Mallen<sup>10</sup>, using the environmental approach reached similar conclusions. What is of great interest in these conclusions is the existence of an evolutionary cycle. The stages of this cycle and their characteristics are the following:

*Stage 1.* Low levels of development. Small market size. Producing units have little specialization. Firms perform all marketing functions. Forward vertical integration

of a conglomerate nature (under common ownership, production and marketing activities).

*Stage 2.* Medium levels of development. Market size expands. The trend: More specialization. The distribution firms specialize within the distribution function becoming specific types of wholesalers, retailers, agents, etc. Channels lengthen to meet the demands of new market segments. Vertical disintegration (common ownership ceases).

*Stage 3.* High levels of development. Market size huge. Direct distribution becomes a strong structural characteristic. Sales promotion becomes of major significance. Operational savings maximized through vertical integration. Appearance and eventual dominance of Vertical Marketing Systems (a. Corporate, b. Contractual — cooperatives-voluntary groups-franchises —, c. Administered).

For a better understanding of this cycle we can combine it with the five stages developed by W. Rostow. We should also keep in mind the law of diminishing marginal efficiency of investment (MEI) for a given unit operating under the same technology (producing, marketing, etc). This law can be used as an alternative explanation of the channels restructuring which manifests the evolutionary path. The theory of the Wheel of Retailing (innovators are highly rewarded initially but imitators are attracted and MEI starts declining) is nothing else but the marketing version of the diminishing MEI.

The above described evolutionary cycle is not, of course, unanimously accepted. Douglas, using the comparative approach, concluded that not all evidence supports this cycle. He wrote<sup>11</sup>:

“Despite the comprehensiveness and scope of the survey there was little evidence to support the widely held theory that the development of marketing structure closely parallels that of the social, economic and cultural environment. The findings of the survey suggest that channel structure and relationships depend primarily on the relative size of the firms at different stages of the channel rather than on the country’s level of development”.

Douglas’ disagreement originates from the fact that even in a LDC there are “islands of full development” accompanied with varying degrees of underdevelopment throughout the vast majority of firms. These islands are usually the remainders of the colonial era.

Their existence makes the theory of the evolutionary cycle vulnerable because on a macroeconomic level we take the algebraic sum of the micro units and sometimes this sum might mislead us. In any event, Douglas’ disagreement calls for additional empirical evidence.

## **F. The Weak Catalyst: Multinationals**

The decades following WWII witnessed a dramatic increase in the role of ME as vehicles enhancing the international trade. The relationships between exporters and

importers took a different perspective. From transactional (loose) they became transactional (tight) oriented.

There are many definitions about ME. The one which implies the integrative and coordinative need of ME is the one given by Vernon. Accordingly, ME is the company<sup>12</sup>:

"Which at any one time has manufacturing subsidiaries on six or more countries and, at any one time its annual sales are in excess of \$100 million".

For the purpose of this study we are interested in examining only one specific dimension of ME activities: on how they cope with the varying degrees of development of the national (local) distribution patterns.

When a company decides to increase its sales through foreign markets penetration it has to select one (usually) of the well known methods of entry<sup>13</sup>. Regardless of the specific method preferred (or imposed), ME is faced with the dilemma of standardization versus adaptation. According to Buzzell<sup>14</sup>:

"Standardization of marketing activities refers to the development of a common marketing strategy for a particular product on a national, regional or worldwide basis, while marketing adaptation refers to policy and practice changes made by a firm in response to local differences".

A number of empirical studies were conducted in relation to standardization versus adaptation dilemma. In reference to the distribution aspect, Aylmer<sup>15</sup> found a considerable amount (61%) of decision autonomy of the subsidiary. This implies the absence of rigid standardization policies adopted throughout the complex organization of ME. In another study, Terpstra<sup>16</sup> found that the emphasis among American firms remained on national distribution, even though preliminary steps were being taken to implement international distribution. Hansen and Boddewyn study<sup>17</sup> came to supplement and update Terpstra's one. According to their findings, at least 67% of the companies contacted had distribution channels covering only one national market each, and this despite the gradual elimination of tariffs among the original six members of EEC. It is also interesting to note the finding that consumer nondurables and industrial marketers undertook small and scattered efforts towards centrally coordinated physical distribution policies.

The common characteristic of all of the above studies is that they analysed European subsidiaries of US based MEs, as their field research focus. But despite the obvious equalities and similarities among the western industrialized countries, standardization of distribution policies still remains an objective to be reached. If we replace these countries and instead of them we use the multi-member family of the LDCs then an aggravation of the existing situation should be the norm.

The implication of the above discussion is that LDCs, the countries to which our attention is addressed, should not expect too much assistance in the area of modernization of their distribution structures, from the MEs, if of course they consider such a type of assistance as desirable. MEs cannot be of much help in diffusing advanced forms of distribution technology. MEs seem to be reluctant to pursue their efforts to-

wards standardizing their distribution related operations because they are faced with obstacles imposed by the prevailing conditions in the host countries. Especially the transportation component of logistics is very vulnerable and creates much technology transplantation skepticism. As it was observed<sup>18</sup>:

“Modern distribution technology is ill suited to the needs of most LDCs and may adversely affect their distribution capabilities. Whereas manufacturing production functions can be modified to fit the labor intensive economies of the LDCs technological interface problems in distribution cause many labor intensive port and terminal operations to be inefficient”.

## **G. Selected Causes of Distribution Malfunctioning**

In most of the LDCs there are environmental forces which hinder the application of high performance, efficiency oriented distribution structures which enhance the general social welfare. Some of these forces prevail even in developed set ups but their effect differ.

Among the modern distribution technologies which are hindered by these environmental forces is the so called “integrated logistics concept”. This managerial innovation, which is considered to be a breakthrough change facilitating the solution of important business related problems, aims at achieving<sup>19</sup>:

- a. High levels of customer service
- b. Effective coordination of the logistics related activities
- c. Better logistics cost control.”

The above mentioned forces, depending on their origin, can be divided into two major categories:

1. Inherent, built-in the system, endogenously determined
2. Legal, exogenously determined.

What follows is a brief description of these forces. The aim remains: How they inhibit the application of the integrated logistics concept.

### **a. Forecasting uncertainty**

Forecasting sales is the first component of the total logistics concept. The other three are materials management, inventory transfer and product transportation.

Forecasting in general is a very difficult task. Uncertainty is always present. This uncertainty is maximized when we are dealing with LDCs. In these countries, marketing research (which includes sales forecasting) cannot reveal accurately things to come. This is the result of insurmountable complexity of economic and noneconomic forces as well as the difficult access to survey methods.

Besides the above, useful numbers and models of behavior are scarce. As it was pointed out<sup>20</sup>:

“In underdeveloped countries, statistical data are unreliable or completely lacking. Trends are often not observable nor are there many identifiable histori-

cal patterns".

This situation will persist for many years to come. Unless the educational level, the per capita income, the services of the public sector increase and the public attitude change, forecasting will remain an art rather than a science.

### **b. Distortion of inventory demand**

Managing-handling inventory constitutes a major part of distribution. Therefore, any analysis leading to meaningful insights is helpful. Inventories are bought, maintained and replenished for the smooth continuation of business operations. Their volume, other things being equal, should be determined only by the level of sales. A high performance management of a firm should estimate the optimum sales to inventory ratio (inventory turnover) and try to comply with it.

But macroeconomists see the things differently, from another perspective. It is not only this ratio which determines the demand for inventories (raw materials, finished, etc.) that producers and resellers keep on hand depend upon such factors as<sup>21</sup>:

1. The rate of interest
2. Price expectations
3. Obsolescence
4. Perishability
5. Advantages of bulk purchasing".

In order to have a measure of the importance of the above factors we should keep in mind that LDCs: a) Suffer from inadequate supply of capital, have unorganized money and capital markets and thus should experience high interest rates (factor 1). b) Have a traditionally higher, built-in the system inflation rate and high inflationary expectations (factor 2). c) Present a big difference between the magnitudes measured in real and current terms and therefore, high interest rates, which represent one of the costs of keeping inventories, in real terms are low, sometimes even negative (factors 1 and 2). d) Lack adequate warehousing facilities both in terms of quantity (space available) and quality (ex. freezing W/H) which they badly need because of the composition of their domestic product (mainly agricultural) and the shorter periods of supply (seasonalities), which considerably worsen the situation (factor 4). e) Have mostly small scale producing units, scattered all over their territory, with the exception of few industries (factor 5).

As a general rule, the demand for inventories in LDCs is distorted and from normal (desired ratio) tends to become speculative (opportunity to capitalize on abnormal situations). This speculation driven demand and maintainance of inventories not only adds to distribution costs at the expense of social welfare but also it becomes a self fueled, almost automatic drive to perpetual and unfavorable distortion of the allocation of the scarce capital.

### **c. Supportive accounting laws**

Among the characteristics pertaining in the LDCs are the lack of tight fiscal control,

the adoption of liberal accounting practices and the antisocial businessmen mentality. As it was pointed out<sup>22</sup>:

“Developing nations generally have low levels of enterprise accounting expertise, a fact which contributes heavily to their inefficient use or nonuse of the resources they possess”.

For the distribution related accounting, the adoption of the LIFO method for evaluating the cost of goods sold leads to excessive overestimation of the historical costs, fuels a sustained if not climbing rate of inflation, distorts resources' allocation patterns and makes the materials management task a gamble (uncertain Economic Order Quantity and Order Cycle, besides other).

On the national accounting level, where LDCs are trying to follow the internationally accepted formulas and procedures, the inventory related malfunctioning ends up in overestimates of the gross private investment component of the GNP. As we know, this investment is divided into three distinct subsets: 1. Business fixed investment (buildings, machinery, etc.). 2. Residential construction. 3. Net change in business inventories. By overestimating investment via the increased cost of inventories, future's optimism is misleading and public policies might end up being hazardous.

## H. Need to Start: A Suggested Model

Observing the above scenario we think we are in a vicious circle type of situation. What we need is a starting point which will eventually activate a faster development process.

Slater, rather than concentrating on how economic development shapes distribution, delves with the potentialities of channel structure macro strategy enhancing economic development. His model, in summary, includes the following arguments<sup>23</sup>:

1. For economic development we need to increase aggregate supply and aggregate demand.
2. Aggregate supply is limited to capacity which in turn is constrained by limited aggregate savings and aggregate investment.
3. For increasing capacity we can better utilize its existing level (labor productivity gains).
4. Most of the disposable personal income, because it is very low, is spent for the purchase of foodstuffs. The need to rationalize the food retail industry is obvious. You can achieve that by inducing large scale, high volume, low margin operations (mainly supermarkets).
5. Supermarkets are high volume assured purchases from producers. Risk of production is significantly decreased. Prices will fall. The aggregate supply curve will shift to the right. Increased savings will be generated as a result of lower food expenditures by consumers and higher profits by producers.

Slater's model is easy in conception and feasible in reality, given of course that



there is a strong will for institutional changes and a mechanism to initiate and implement a system of incentives. We should always keep in mind that retailers and wholesalers, from the exclusive general representative of a foreign firm to the small local sales agent, constitute one of the most powerful groups of pressure in our pluralistic societies. Traditionally, the wholesalers of agricultural products, the undisputed channel captains, are institutions with excessive financial and political leverage, at least on a regional basis. The force of inertia, which targets the preservation of existing status quo, is always present and influential.

## I. Conclusive Remarks

The preceding bibliographical research leads us to believe that the state of the art is poor. Vigorous theoretical and empirical research is undoubtedly needed. Out of this limited knowledge, some "sings in the horizon" suggest that:

- a. By increasing the efficiency of the distributive trades we can enhance economic development.
- b. Efficiency is operationalized using two dimensions, the capital invested and the cost of operations. They should both decrease on an aggregate level, creating savings and capital surpluses to be reallocated to other sectors.
- c. Foreign modern distribution technology cannot be transplanted as it is. Local peculiar conditions drastically differ from one country to another (ex. LDCs lack suburbia and therefore shopping centers should be downtown located). Multinationals are hesitant or reluctant when it comes down to diffuse their distribution know-how to host countries.
- d. Efficiency should be locally initiated and induced via effective incentives. Foreign experts can be helpful in tailoring modern technology to local needs, after careful examination. Pilot projects undertaken by local authorities are essential as sources for spreading the beneficial effects, changing attitudes and provoking established interests to imitate and compete.
- e. Widespread education of consumers with messages in the mass media, governmental announcements and other types of campaigns can yield supportive results. When consumers know that a specific group of retailers charges unreasonable mark ups, they will eventually react. Substitution and boycott will result. The seeds of consumerism movement will already be scattered.

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