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SHORTENING THE WAY OF GOODS IN THE HUNGARIAN HOME TRADE

A basic function of both producing and trade enterprises is to ensure a continuously developing supply of reliable goods in an assortment meeting consumer's demands. The requirements created by increasing consumer demand, most reasonable exploitation of the limited number of available manpower, rationalization of work and a more effective utilization of means all necessitate an improvement in the methods, technical-economic conditions and organization of conveying goods and materials between producing and consuming sectors. Therefore the aim is to forward the goods from producer to consumer with the lowest possible cost, in the shortest possible way.

The government decision passed in 1968 served already this purpose, regulating the new order of products' distribution. The system of compulsory ways of distribution has been abolished and as a result of the increased independence of companies, they are free to choose their business partners, suppliers and customers.

1. THE ORGANIZATIONAL STRUCTURE OF THE HUNGARIAN HOME TRADE

Characteristic features of the Hungarian home trade are the wholesale enterprises supplying 2 or 3 provinces, however, some of them may supply the whole country. Among the wholesalers many are big, nation-wide enterprises. Each network of retail shops and of catering trade usually covers one province, though there are retailers confining their activity to the capital and again others having shops everywhere in the country.

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Certain groups of goods are distributed by nation-wide enterprises organized for demi-gross activity (such goods are, among others, photo articles, watches, jewellery).

The task of the General Consumer's and Distribution Co-operatives (ÁFÉSZ) at the time of their foundation was to provide the rural population with goods. However, with the lifting of territorial limitations, the ÁFÉSZ put up more and more shops in towns and in the capital, too.

In Hungary, the branch control and administrative supervision of wholesalers, demi-gross enterprises, nation-wide retailers and catering companies are carried out directly by the Ministry of Home Trade.

The branch control of local companies is also performed by the Ministry; the administrative supervision, however, is exercised by the competent governmental bodies, that is, by the councils. Therefore, within these companies the jurisdictions of branch control and supervision are separated. The Ministry of Home Trade and the trade departments of the councils maintain a continuous contact.

The supervision of co-operative and catering companies is exercised by the National Association of Co-operatives.

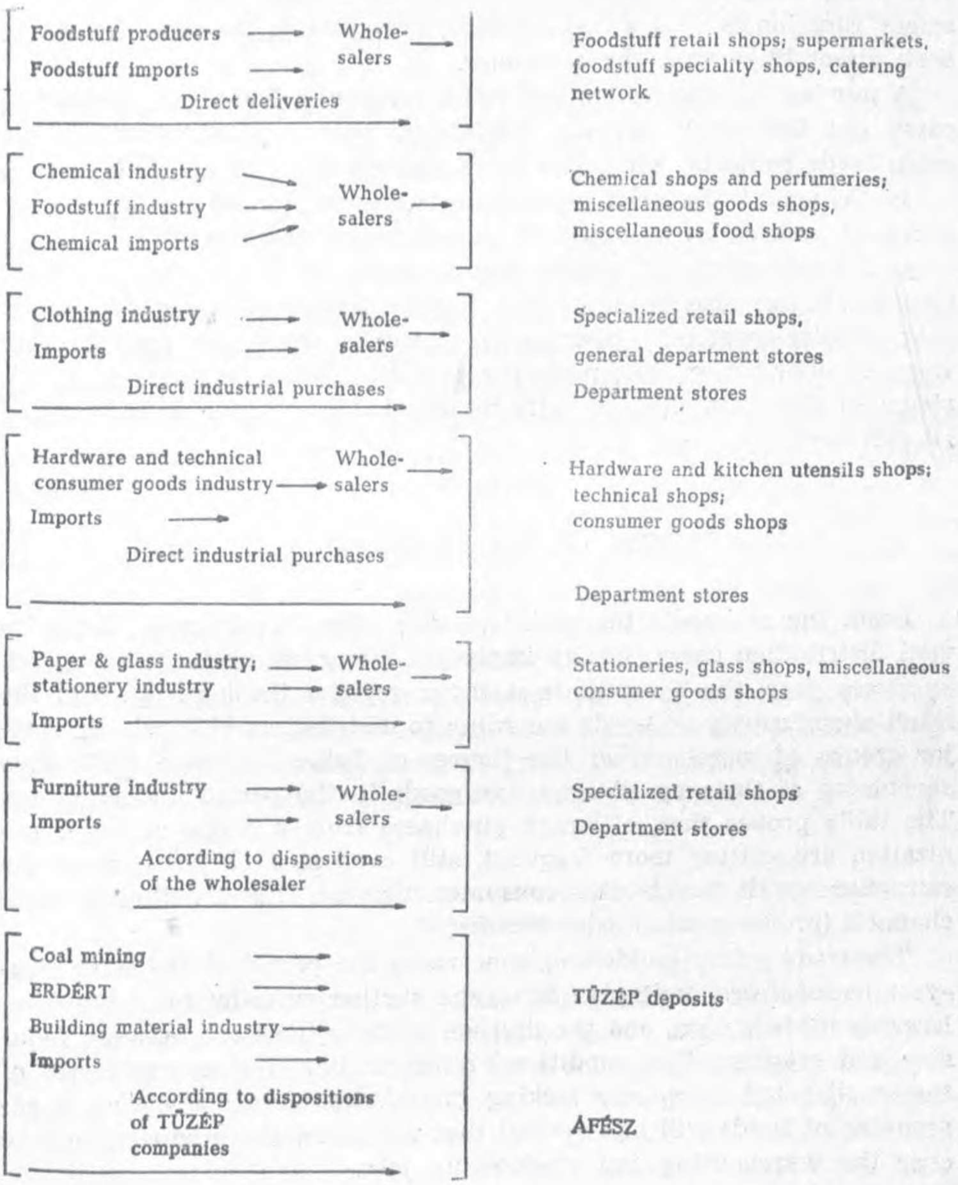
Examining the home trade organizational structure, efforts toward a higher concentration can be witnessed. These efforts are justified by the endeavour to establish a more reasonable order of magnitude among the companies. The companies' obligation to self-financing as well as to the development of fixed and circulating funds calls for an increase in the size of companies. The concentration, first of all among wholesalers and general consumer co-operatives, took place horizontally. Back in 1960, the number of wholesalers amounted to as many as 119, which number, following the mergers dropped to 48 by 1977. A similar tendency can be noted in the number of ÁFÉSZ-companies: from the 1374 co-operatives active in 1960, their number went back to 303 by 1977. A vertical concentration is barred by the twofold supervision and ownership respectively.

As a result of the concentration, the turnover and profits of each remaining company increased, whereas the necessary resources for the company's economy are more easily available.

A concentration of the disintegrated trade is needed not only because of the reasonable centralization of means, but also because it is the only way for trading companies to appear as an „equal partner" vis-á-vis a rather centralized industry. At present, due to the lack of such balance, it often occurs that the trading companies do not make use even of their existing legal possibilities (like entering a claim for penalty in case of late delivery on the part of the industry) simply because they do not want to risk their „pleasant" contacts with the industry. To establish trading companies better equipped with capital is only a partial solution of the problem; the industry's monopolistic position — a situation faced very often nowadays — should cease.

Scheme 1

The process and characteristic stage of the replacement of goods within the consumer goods trade



2. DISTRIBUTION CHANNELS OF THE HUNGARIAN TRADE

Following the introduction of the new economy guiding system, in Hungary the system of goods distribution has been moving more and more towards a multi-channelled system of contacts. A certain kind of merchandise may pass a different route from the producer to the consumer, since the strict isolation of functions between wholesale and retail has been eliminated. Retail companies fulfil very often wholesalers' function as well, or wholesalers, disregarding the retail networks, seek direct links with the consumer.

A number of wholesalers and retail companies have been entitled to carry out their own imports, thus being able to establish direct foreign trade contacts, what also helps shorten the way of goods.

In Scheme 1 the most characteristic distribution channels for each group of articles are outlined. It shows clearly that the distribution of even a single group of articles can be made by more than one trade channel. It can also be noted that besides traditional (producer-wholesaler-retailer-consumer) distribution channels there are typical other ways of distribution, too, matching best the nature of goods to be distributed (for example foodstuffs by direct delivery, furniture by transit delivery).

3. PROPORTIONS OF THE DISTRIBUTION CHANNELS

From the rationalization point of view, the proportion of the relevant distribution channel is an important factor, worth to be examined.

Every year, the home trade statistics register the breakdown of the retail shops supply of goods according to distribution channels, for major groups of merchandise. The figures of Table 1 show a continuous shortening of the way of consumer goods in the period under survey. The table proves that, although purchases from a single selling organization are getting more frequent, still even now 55 per cent of the consumer goods reach the consumer through the traditional trade channels (producer-wholesaler-retailer).

The trade policy guildelines concerning the period of the sixth five-year national economic plan forecast a further curtailment of the wholesaler's participation, and the division of their functions between industry and retailers. The condition of this is, however, concentration of the small retail companies lacking capital. Simultaneously, such a regrouping of funds will be required that will allow the producers to take over the warehousing and stock-piling jobs.

Table 1

Percentage share of the retail shops' supply of goods, according to the number of marketing channels. Purchase through one and two marketing channels (100 = total supply)

Year	Organizations				Organizations			
	Food stuffs*	Clothing	Miscella-neous	Total	Food-stuffs	Clothing	Miscella-neous	Total
1970	52	26	33	39	48	74	67	61
1971	52	26	33	39	48	74	67	61
1972	53	26	36	41	47	74	66	59
1973	54	25	35	41	46	75	65	59
1974	58	28	35	42	42	72	61	58
1975	59	28	39	44	41	72	61	56
1976	59	29	40	45	41	71	60	55

* Direct purchases included.

When examining each main group of merchandise, considerable deviations from the average can be observed: the distribution channel of the clothing articles in the most differentiated, 71 per cent of their turnover is even now handled by two trade organizations. The length of the trade channels often leaves its mark on the supply of clothing articles: the trade is frequently unable to elastically follow the demand. Inspite of all these, under the present economic conditions — characterized with continuous production and seasonal fluctuation of demand and the fact that the producing enterprises are ill-equipped for longer warehousing — the wholesale companies' warehousing, accumulating and assortment-building function is still necessary.

Short distribution channels are more typical in the foodstuff trade, here 59 per cent of the goods reach the consumers through one single trade organization. In this group of goods their perishable nature makes shortening the way of goods even more essential.

4. OBSTACLES TO SHORTENING THE FLOW OF GOODS IN THE HUNGARIAN ECONOMY

The organizational structure of the Hungarian industrial companies, among them of those producing consumer goods is production-oriented, for the most part the only task of their selling departments is to forward the goods produced to the trade, therefore, the sales departments exert no particular influence on the production itself. This results from the traditional attitude making a sharp distinction between the functions of industry and trade, thus separating the production and the distribution in the course of the social division of labour.

This sharp separation is only stressed by the present regulation system that does not provide enough financial means for producing companies to enable them to build proper store-houses for finished goods or to accumulate circulating funds sufficient for financing their stocks. Consequently, the industry is not interested and does not have the means to take over the wholesalers' functions, to produce without orders, to reserve raw materials and semifinished products and to supply the trade directly.

At present, such financial means are mostly concentrated in the wholesale branch and it is the wholesalers' task to store the finished goods in the long run, to bridge over the time gap between production and consumption, to build up assortments and so on.

The industry and the state-owned large-scale industry in particular, produce almost exclusively on the basis of orders from the wholesalers, thus the risk of selling finished products is wholly borne by the wholesalers, and the industry does not feel directly the problems involved in the balance of demand and supply. Hitherto the dominant factors are such as monopolistic position of the producers, frequent lack of materials and capacities and obstacles in the flow of information. The state-owned large-scale industries satisfy first the wholesalers' demands and only after meeting their demands or in the case of decreasing demand make efforts to fully meet the retailers' requirements. It also happens quite often that producers lacking basic materials or manpower or faced with increased export obligations, refuse to fulfil the retailers' orders first.

Also the prevailing profit margins do not encourage the producers to directly satisfy the retailers' demands, not even when the latter would be able to give orders for economical quantities.

Another problem is that the producer's price does not include transport costs, for producers the place of realization is their own plant, and as a result, they are not interested in shortening the flow of goods.

A further trouble is that the organizational structure of the industries — as it was referred to earlier — is unable to satisfy direct consumer demands. That is why many producing companies do not deal with direct sales for the population and especially in the main groups of clothing and miscellaneous consumer goods there are very few examples of direct sales, that is, for their own shops.

5. PATTERNS OF SHORTENING THE FLOW OF GOODS

In order to establish a more efficient economy, the trade policy guidelines envisage a further shortening of the flow of goods for the next five-year national economic plan, too. The aim is — in addition to the traditional trade channels, within the framework of the multi-channelled distribution system — to increase the share of turnover made through shorter trade channels, many of which have been succesfully working for several years.

5.1. DEMI-GROSS TRADE

At it was already mentioned, even now 55 per cent of the retail turnover runs through the wholesalers. Together with the reduction of this rate, the wholesalers will still be needed in the trade for a long time, because there are a lot of trade functions which only those companies are able to perform.

Besides using traditional distribution channels, the wholesale companies can shorten the flow of goods by reorganizing themselves to demi-gross companies and establishing their own network of shops. Such a form of activity exploits very well the specific professional and territorial features of these companies when purchasing from the industry. It becomes possible to get in direct touch with the consumer, what enables the company to quickly follow changes in the demand and this ability is an advantage for the demi-gross company in its relation to retailers.

Traditional demi-gross companies in Hungary are the OFOTÉRT (Trading Company for Photo and Optical Articles) and the Trading Company for Watches and Jewellry. The trade in building materials and fuels is another good example for this organizational set-up. There are efforts to widen their demi-gross activity in the clothing trade, where a direct link between the wholesaler and the market is of particular importance. It is reasonable to organize the furniture trade also in demigross form because this way the customer can get acquainted with the full range in well-equipped and well-provided wholesaler-owned shops (like the DOMUS network of shops) that small shops are not able to keep.

5.2. DIRECT PURCHASES BY THE RETAIL TRADE

Within the framework of the multi-channelled marketing system, more and more goods directly purchased by the retail trade reach the customers. The experience of previous years proved that direct purchases by the retail trade

— make the physical and administrative way of goods more simple;

— improve the supply of goods, widen the assortment;

— the supply of both volume and assortment of the retail trade can be more easily adjusted to the demand, articles in short supply can be produced;

— prompt the wholesale companies to compete with each other, and force the wholesale trade to be more elastic;

— improve the economic results of the retail companies.

The table shows the direct purchases of foodstuffs including direct deliveries, while the group of miscellaneous consumer goods includes the turnover in fuel and building materials. After „clearing off" this trade turnover, direct purchases by the retail trade are shown by the following picture.

In the case of foodstuffs, direct purchases together with direct deliveries represent already now a considerable share of the total trade turnover. Within this group the way of goods can be shortened further if the technics in the trade are advanced and new groups of goods are drawn into the field of direct deliveries.

Direct purchases by the retail trade during the last decade are shown below (see Table 2, 3).

Table 2

Direct purchases by the retail trade in percentages
(100 = total turnover)

Year	Foodstuffs	Clothing articles	Miscellaneous consumer goods	Average of main groups of goods
1970	54	24	32	39
1975	59	21	39	44
1977	60	28	42	46

Table 3

Percentage share of direct purchases by the retail trade from the total turnover
(100 = total supply of goods)

Year	Foodstuffs	Clothing	Miscellaneous consumer goods	Average of main groups of goods
1970	8	23	7	11
1975	9	26	19	16
1977	10	26	21	18

More goods can be forwarded to the shops directly from the producer, when

— quantity and time of deliveries are strictly scheduled;

— deliveries after closing time are more widely used;

— more open and closed containers, loading plates are applied;

— non-perishable foodstuffs such as flour, sugar and canned food are also delivered directly.

The share of traditional distribution channels is biggest in the clothing group. Accordingly, the need for increasing the direct purchases by the retail trade is the strongest here. The state-owned large-scale industries producing this major group of goods are rather concentrated, their capacities are fully exploited by voluminous — mostly to socialist countries — exports, so that the producers are in no need of seeking contacts with the retail trade. In this field it is rather the smaller council companies and cooperatives which can be persuaded to deal directly with the retail trade.

Among producing companies, those belonging to the co-operative industry are more buoyant, while — according to the results of a 1974 survey — out of the direct purchases of clothing articles the state-owned trade accounted for 86 per cent as against its 86 per cent share of the total turnover. One should certainly consider here that the state-owned trade is more concentrated than that of the co-operatives, the state-owned retail companies are better provided with capital, thus being better partners for the industry. It is due to similar causes that retail companies of the capital carry out 77 per cent of the clothing retail trade's direct purchases, although their share in the total turnover is no more than 31 per cent (see Table 4). Within the direct purchases of the clothing retail trade, the direct import purchases are about to increase, their share went up from 6 per cent in 1970 to 12 per cent by 1977.

Table 4

Percentage share of direct purchases of clothing and miscellaneous consumer goods according to sectors and territories in 1974

Trade	Clothing		Miscellaneous consumer goods	
	direct purchases	total turnover	direct purchases	total turnover
State-owned retail trade	86	70	80	72
Co-operative retail trade	14	30	20	28
Total	100	100	100	100
Provincial retail trade	23	69	42	72
Retail trade of the capital	77	31	58	28
Total	100	100	100	100

The most rapid increase of direct purchases by the retail trade in the period under survey can be experienced in the group of miscellaneous consumer goods: they have trebled. Here, too, — like in the case of clothing articles — direct purchases are mainly done by state-owned companies (80 per cent) and the share of companies in the capital is though of smaller extent (58 per cent), but still bigger than their share of turnover.

This is the group of articles with the most significant direct imports the share of which amounted to 40 per cent of the direct purchases in 1977. Such imports usually fill a market gap, but often they help widen the assortment, too.

If the retail trade wants to further increase its direct purchases, it has to be performed with the concentration of small companies with poor capital, and more wholesale companies should set up a joint buying organization along with jointly operated, large store complexes. The regrettable tendency that a number of Hungarian goods are getting difficult to sell on the world market, is expected to create a more favourable situation for the retail trade because the producers trying to exploit their free capacities will presumably be more willing to intensify their direct contacts with the retail trade.

5.3. DIRECT SALES BY PRODUCERS

The shortest distribution channel is no doubt when the goods are marketed by the producer himself, without making use of the assistance of either wholesalers or retailers. Such a direct link between production and consumption ensures a fast flow of information and makes harmonizing supply and demand possible.

At present, there are 6,300 producer-owned shops operating in Hungary. An overwhelming number of them (4,600) are food shops and catering units. Relatively low is the number of shops owned by companies producing clothing or consumer goods. Most of the existing ones are top-quality shops, and own network of shops is maintained only by a few preoducers.

There are still a great many opportunities to shorten the way of goods, especially in the two above — mentioned groups of articles. The opportunities are particularly good for producers with a relatively small range of products the impact of which is, however, quite big in the supply. Such producers are, for example, the Hajdusag Works producing washing machines and electric water boilers, the Lehel Refrigerator Factory, or both TV-set makers, VIDEOTON and ORION.

These producers already have a few own shops, or shops operated jointly with one or another retailer company, but there are still no networks of their shops, though industrial companies like those could much more economically market their own products than the disintegrated retail trade. However, this would require setting up their own distribution and marketing organizations, providing the necessary financial means and solution of financing stocks.

Opportunities for operating own shops exist not only in the group of consumer goods. Also in the case of large factories making clothing articles it appears to be reasonable to establish such networks. The FEKON Underwear Factory producing millions of men's and boy's shirts and pyjamas per year and accounting for more than 50 per cent share of the domestic output of these articles, has recently diversified its production range and now it makes women's wear as well. At the same time FEKON widened its range of products, and entrusted a West German marketing institute to organize the factory's marketing activity. A cardinal point of the institute's proposal was to develop Fekon's own network of shops in major Hungarian towns.

The way of goods can also be shortened in the foodstuff and catering trade on the basis of the success of the existing producer-owned shops.

5.4. SOME OTHER METHODS OF SHORTENING THE FLOW OF GOODS

All commercial methods, in the course of which the physical and administrative flow of goods gets separated and the physical one becomes considerably shorter, should be considered in shortening the way of goods. Distribution methods like that can be applied principally in the field of miscellaneous consumer goods, especially in the case of consumer durables.

In Hungary, 80 per cent of the furniture turnover is being carried out by transit, that is, a greater part of furniture reach the customer on the basis of dispositions from the shops, arriving from central warehouses, without getting into the shops. Such a way of distribution certainly calls for an up-to-date, accurate records on the stocks. This work is done in most shops by hand, however, within the DOMUS network there is already a computer keeping evidence of the stock.

For a few years, the home trade has been trying to widen the scope of sales after sample, which is working well with furniture and should be introduced in the field of household appliances. In these branches the introduction of such distribution method is all the more necessary because marketing of the above-said goods — in the case of traditional distribution — involves losses for both wholesaler and retailer. Yet, shortening of the way of goods might make their distribution profitable. An important condition of the sales after sample — first of all in the case of the aforementioned high-value articles — is that the products be faultless and of constant quality.

On the basis of recent experience there still remain a few problems to be cleared and to be solved. They are:

— speeding up free delivery (faulty devices are replaced within no more than 72 hours);

— testing devices prior to delivery in the trade's warehouse;

— continuous supply of goods;

— others.

Sales after sample can be connected with any of the distribution channels; in the Hungarian distribution system it is mainly viable with the following marketing forms:

1. On the basis of the retail shop's disposition (in case of a traditional channel) from the wholesaler's warehouse directly to the customer (sales after sample can be similarly carried out in the case of shops jointly owned by the wholesale and retail trade).

2. According to the dispositions of shops owned by wholesale companies, operating in demi-gross from, directly to the customer's premises.

3. Delivery of goods coming from direct purchases by the retail trade, from their central warehouse directly to the customer, on the basis of the shop's disposition.

4. On the basis of dispositions by the producing companies' own shops, from the producer's warehouse to the customer's place.

However, the most efficient method of shortening the way of goods in case of sales after sample is when warehousing too is performed — even in cases as per Points 1—3 — not by the trade but the industrial company itself, and the delivery is effected from there, on the basis of dispositions given by the shops.

The Hungarian Institute for Market Research at the request of the Ministry of Home Trade is just about to make a survey on the results of sales after sample.

Summarizing, it can be stated that in the Hungarian consumer goods trade more and more efforts are being made to shorten the way of goods. The possibilities for that are afforded by a goverment resolution passed a few years ago, which lifted up the system of compulsory distribution channels. In spite of this, the companies of the Hungarian home trade have not made proper use of those opportunities up to now; in many branches — first of all in the clothing and miscellaneous consumer's goods groups — the goods reach the consumers on a way much too long. The reasons, as it was mentioned earlier, are to be found not only in the economy of the trade, but also in that of the industrial companies working with them. Financial means are to be provided for the producers to enable them to take over a part of the functions which at present are performed by the wholesalers (such as warehousing, building, up assortments etc.).

A majority of the forms aiming at simplification of the distribution methods is already being applied in the Hungarian home trade and there are also experiments under way to propagate marketing methods that shorten the way of goods flow like sales after sample. Besides introducing such patterns, the aim is to widely expand existing and well proved distribution forms such as direct sales by the industry, direct purchases by the retail trade and others.

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WYSIŁKI ZMIERZAJĄCE DO SKRÓCENIA DROGI TOWARÓW W WĘGIERSKIM HANDLU WEWNĘTRZNYM

Biorąc za punkt wyjścia racjonalną tezę, że podstawowym celem systemu dystrybucji jest przemieszczenie dóbr od producenta do konsumenta przy najniższych kosztach i możliwie najkrótszą drogą, autorka dokonała w artykule analizy możliwości osiągnięcia tego celu w węgierskim handlu wewnętrznym. Swoją uwagę skoncentrowała na analizie możliwości tkwiących w strukturze organizacyjnej handlu na Węgrzech, kanałach dystrybucji handlu węgierskiego oraz w pokonaniu przeszkód i skracaniu przebiegu towarów w gospodarce węgierskiej. Pokazała pewne wzorce umożliwiające realizację celu podstawowego. W oparciu o przeprowadzone badania wysunęła szereg umotywowanych w tym zakresie postulatów.