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Functionele en ruimtelijke dynamiek in de groothandel

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Document Version

Publisher's PDF, also known as Version of record

Publication date:

2009

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Riemers, C. (2009). *Functionele en ruimtelijke dynamiek in de groothandel*. s.n.

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SUMMARY

Functional and spatial dynamics in the wholesale sector

This research focusses on the spatial functioning of the wholesale sector in The Netherlands. Businesses that trade goods at their own costs and risk are considered as part of the sector of wholesaling. These goods are not produced within their own business and will not be sold to the final consumer. Wholesale businesses play an important role in the distribution of goods. They stimulate the flow of goods towards the final consumer by means of their intermediate position in the distribution channel. The distribution channel consists of a number of links that a product passes through from the primary producer to the final consumer.

The main question of this research is whether there is a link between the position of whole-sale businesses in the distribution channel and their spatial choice of location. Can the position of the wholesale sector in the distribution channel be regarded as an influential factor related to spatial choice of location? As such, the relevant aspect of spatial location is the proximity with regard to the suppliers and buyers of wholesale businesses.

S.1 The function of wholesale businesses

In 1997 there were 53,000 wholesale businesses in The Netherlands (10% of total businesses), employing 425,000 employees (about 6% of total employment), with a turnover of 373 billion Dutch guilders (26% of total turnover). Wholesale businesses are often very small with 22% having less than 10 employees. However, they tend to grow due to the process of up scaling. In comparison with other sectors, the wholesale sector is very innovative, especially in information and communication technology and logistics. Besides that, the wholesale sector is of great importance for imports and exports. The wholesale sector accounts for 45% and 35% of all Dutch imports and exports respectively. A remarkable fact is that the wholesale sector bears the most cost for physical distribution in comparison with the industry and retail sectors. The costs for keeping stocks particularly stand out.

The complexity of the distribution of goods from the primary producer to the final consumer, with its distinguishable flows of information, orders, goods and money, demands intermediate links in the distribution channel. Intermediate links, such as wholesale businesses, retail businesses, logistic and service industries, are enlisted when large differences occur in the distance, quantity, quality and time between the supply and demand of goods. The greater the differences, the sooner intermediate links are needed. The main function of wholesalers is to push goods through the distribution channel. They transfer the circumstances in which the suppliers sell goods into circumstances in which buyers are able and prepared to buy the goods. To accomplish this function they do not only offer a range of goods of all kinds, they also fulfil many services, such as logistic or after-sales services. In their warehouses they perform their commercial (office activities such as buying, selling and promotion), financial (invoicing and granting

credits), logistic (transportation, stock-keeping, imports and exports) and information (giving market information and advising) functions. The stock-keeping, information, advising and service functions will be of increasing importance in the future.

Positioning as an intermediate makes the position of wholesale businesses vulnerable. Wholesaling is a type of service industry that depends upon the demand of others to perform their services. Wholesale businesses have to cope with the threat of elimination by other parties in the distribution channel when they no longer carry out the wholesale functions more cheaply and efficiently than others. When the increased complexity of distribution of goods is taken into account, it is the less efficient wholesale businesses that will be eliminated, not the wholesale *functions* themselves. Service industries specialized in logistics may expand their transport and storage activities with wholesale trade activities. Another possibility is that retail businesses and manufacturing industries approach each other directly, leaving some wholesale businesses redundant.

This dynamic situation causes a complexity of channel structures, in which combinations of interdependent (business) organisations join forces to deliver goods to the final consumers. The channel structure strongly depends on economic, technical and social developments. For instance, the reversal from a supply-driven towards a demand-driven distribution channel causes a shorter life cycle of products and a stronger emphasis on service and value added activities. This places higher demands on the distribution of goods as well. The delivery has to be more flexible and reliable. Goods are sent more often and in smaller quantities. The logistics are optimized by means of just-in-time systems and chain integration. The fast developments in communication and information technology and in the internal (improved storage systems in warehouses) and external logistics (optimal planning of deliveries) make this form of distribution possible. It allows more control on the flow of information, orders, goods and money. Wholesale businesses are in a good position to perform value added activities. They stand closer to the final consumer than manufacturing industries. They have also more knowledge, space and machinery than retailers or other buyers of wholesale businesses. In this way, the suppliers and buyers of wholesale businesses can concentrate on their core business. This creates opportunities for wholesale businesses to strengthen their position in the distribution channel. Wholesale businesses can also play a significant role in return flows of recycled goods. Another important development is increasing internationalization. The European community and the euro were introduced to create an open market and to diminish obstructions for trade. Theoretically, this would be a disadvantage for the wholesale sector, considering the fact that they are enlisted in the distribution channel to create order in chaotic market structures. But in practice one can not yet speak of free trade considering the many different rules between the members. Therefore, wholesale businesses are still called upon for their strong international orientation.

S.2 The spatial functioning of wholesale businesses

Although the wholesale sector shows a more scattered spatial pattern over The Netherlands since 1973, the spatial pattern is still characterised by a concentration of wholesale businesses in the west and centre of the country in 1993 (see figure 4.5). There is a decrease of businesses in the periphery. The dynamics in this spatial pattern are influenced by two developments: concentration and suburbanisation. In the north of the country one can see a concentration towards the middle of this region. This spatial development might be caused by the up scaling of businesses. The larger size of the businesses allows them to reach the whole northern region from one central location. In other parts of The Netherlands such spatial dynamics are not to be seen. The suburbanisation is strong around the cities of Amsterdam, Rotterdam and The Hague. Amsterdam has lost its dominant position. A lack of space and congestion forced wholesale businesses to move to the edge of the city or to smaller towns around the cities. Also the strong reorganisation and up scaling of businesses caused suburbanisation. Wholesale businesses are mostly found at the following locations:

- business ground for light industries;
- business ground for transport or distribution activities;
- close to exits and entrances of highways.

The most important location factors are:

- good possibilities for quick deliveries;
- location with regard to the buyers;
- good (inter)national accessibility by road;
- the price of land, possibilities for expansion, skilled labour, parking space and the availability of good business ground and buildings.

The location with regard to the buyers refers to the link between the function and the spatial pattern of wholesale businesses. The main role of wholesaling mentioned previously, indicates the orientation towards the final consumers and to their own buyers. As an other location factor, the goods in which the wholesale businesses trade can be pointed out. There is a regional specialisation of lines of wholesale business (see figures 4.6 to 4.24). A very concentrated spatial pattern is shown by the wholesale branches of flowers and plants, vegetables and fruits, mineral oil products, textiles and fish. The reason for their concentration lies in their close connection with auctions, the harbour of Rotterdam, the World Fashion Centre of Amsterdam and the coastal waters respectively. Other wholesale branches are extremely scattered over the country, such as the wholesale businesses in wood materials, agricultural machinery and paint. These businesses follow the spatial spread of their buyers.

Obviously, a wholesale business never operates by itself but has to have connections with others to be able to trade goods. They depend on a network of trade-relations. The network approach is used to put the position of the wholesale sector in the distribution channel in a functional and spatial perspective. A large inquiry under the research panel of firms of the Faculty of Spatial Sciences of the University of Groningen, containing a cross-section of the Dutch business community, has been held in November 1995. The purpose was to find out how wholesale businesses function, for which activities and over

what distances they are enlisted by different business sectors. More than half of the businesses in the inquiry (n=1240) have business contacts, in the sense of supply- or buy-relations, with wholesale businesses. Repair shops have the greatest number of contacts with wholesale businesses, followed by the manufacturing industry. The retailers come third, followed by the building industry and service sector. The wholesale activities most often used by other businesses are transport, stock-keeping and providing information and advice. The wholesale businesses only form a small part of the total number of suppliers or buyers of other businesses. Of course this differs from business to business and it does not say much about the qualitative meaning of the wholesale business as a supplier or buyer. For instance, a wholesale business can deliver most goods or those goods with which most money is made. Also the wholesale business can offer high (after-sales) service or value added activities. Wholesale businesses are much more often in the role of "supplier of" than "buyer of" goods. The results only partly reflect the conventional distribution channel. According to the conventional distribution channel wholesale businesses should mostly be the buyers from manufacturing industries. The inquiry showed that wholesale businesses turned out to be a supplier of goods for 87% of the manufacturing industries. On the other hand, wholesale businesses were suppliers of 91% of the retail businesses, according to the distribution channel. Of course the distribution channel is only a simplified model, one could better speak in terms of a distribution network.

The business contacts between the Dutch business community and wholesale businesses were mostly on a national scale. Less than 15% of the business contacts were international. The wholesale businesses themselves had their buyers mainly on a regional and national scale, and their suppliers on a national and international scale. Again this points out the strong import function of the wholesale sector and their role as supplier for the Dutch business community. The spatial range of wholesale businesses has slightly increased between 1990 and 1995 towards the international level with regard to both their suppliers and buyers.

S.3 Functional dynamics in the distribution channel of electro-technical industrial and consumer goods

The strong influence of goods on the function and spatial pattern of wholesale businesses makes it hard to generalise the wholesale sector. Besides that, spatial and functional networks are quite complex. Therefore, the research focusses on one particular wholesale branch: the electro-technical wholesaling. This branch consists of two parts: wholesale businesses that trade in electro-technical *industrial* or *consumer* goods. Wholesale businesses trading in electro-technical industrial goods provide materials for electric installation, cables and supporting systems for cable, wire, switchboards, safety supplies, electronic tools, electric heating and cooling systems, professional light systems, etc. Wholesale businesses in electro-technical consumer goods trade in refrigerators, washing-machines, audio and video, dryers, kitchen supplies, personal care, etc. The type of goods bring about many differences in the function and position between the distribution channels of the two wholesale branches (see table S.1).

Table S.1 Differences between the two wholesale branches

electro-technical industrial goods	electro-technical consumer goods
wholesale businesses trade in complicated and extensive goods, which require a lot of technical knowledge	wholesale businesses trade in user goods for final consumer, new goods are the telecom products and pc's
dynamic and complicated distribution channel	conventional distribution channel, driven by the final consumer
distribution, storage, import and information function of wholesale businesses	distribution and storage function of wholesale businesses
wholesale businesses are internationally, nationally and regionally orientated	wholesale businesses are nationally and regionally orientated
wholesale businesses have relatively few suppliers and a lot of buyers	wholesale businesses have relatively few suppliers and a lot of buyers
wholesale businesses have different kinds of professional buyers	wholesale businesses have mainly independent retailers as buyers
there are rather broad margins	there are tight margins and low prices
wholesale businesses use EDI, videotex and internet	wholesale businesses sometimes use EDI and internet
strong position of wholesale businesses in the distribution channel	weak position of wholesale businesses in the distribution channel

For wholesale businesses in electro-technical consumer goods it is relevant to compose a complete assortment with as many brand names as possible. Furthermore they have to sell the goods at low prices in order to fulfill the high demands of the final consumer. The buyers of the wholesale businesses in electro-technical industrial goods have high demands concerning the assortment and price and moreover, ask for just-in-time delivery. They depend on the delivery of the complete order at the right time and place for the continuation of their own production process. This means that the information function, the value added activities as well as the logistic service are of greater importance than for the wholesale businesses in electro-technical consumer goods.

Not only the assortment of the two wholesale branches influence their function and position. The type of suppliers and buyers count as well. The manufacturers of electro-technical industrial goods are almost all located abroad. Only an estimated 20% of the electro-technical industrial goods are produced in The Netherlands. This stimulates the import function of wholesale businesses in electro-technical industrial goods.

The buyers of electro-technical industrial goods are:

- manufacturing industry, industries that produce ready made parts for building projects;
- building industry;
- electricians;
- governmental institutes;
- hospitals and other large institutes;
- do-it-yourself shops and other retailers.

They are mostly located in The Netherlands. The electricians are the most important group. The manufacturers of electro-technical consumer goods are generally located abroad as well. But the suppliers of the wholesale businesses are the Dutch importers which can be seen as an integrated part of the manufacturers. These wholesale businesses therefore barely import goods themselves. The buyers of electro-technical consumer goods are:

- retail chains;
- organised retailers;
- independent small retailers.

The chains take care of the distribution to the chain stores themselves by means of bar coding systems and central distribution centres in which the goods are delivered directly from the manufacturers or importers. They completely eliminate the wholesale sector. The organised retailers form part of franchisers, purchasers or sellers groups. They enlist wholesale businesses only for the stock-keeping and distribution activities. The small independent electro-technical shops still form an important buyers group for the wholesale businesses in electro-technical consumer goods. The up scaling of businesses and strong internationalization of the importers, chains and organised retailers causes the wholesale branch of electro-technical consumer goods to be almost eliminated. The prices of the goods have dropped tremendously by the strong competition and the margins are small. This means that there is not much space left for an extra link in the distribution channel, which makes the position of the wholesale branch of electro-technical consumer goods rather weak. The number of independent retailers will decrease caused by a lack of successors and/or affiliation with the chains or organised retailers. In addition, many electro-technical consumer goods increasingly reach the final consumers via different channels, such as mail order businesses, photographers shops, department stores, supermarkets, etc. On the other hand, there are a few chances for wholesale businesses in electro-technical consumer goods. Stock-keeping offers an important function because retailers desire to use the space taken up for stocks to create more room in the shop. Also the stocks of electro-technical consumer goods carry high risks of quick aging and high costs. Second, the assortment can be extended with telecom products and pc's. Finally, there lies a chance in performing distribution activities for manufacturers that have European distribution centres out of The Netherlands but do not have Dutch importers and/or distribution centres (anymore). The importers are not strong in the quick distribution of small deliveries, in which the wholesalers are precisely specialized.

The competition in the channel of electro-technical industrial goods is strong as well, but the wholesale businesses have a considerable stronger position. The electro-technical industrial goods have broader margins, need more technical knowledge and are used by

professional buyers instead of the final consumers. The buyers of wholesale businesses in electro-technical goods are more diverse, less organised, smaller scaled and less internationally orientated and there is small growth in the electric installation market. The suppliers tend to contract out more activities to be able to focus on their core business, so that the electro-technical wholesale businesses can take over certain activities and increase their part in the logistic process. The function of stock-keeping will hold its importance, especially with the zero-stock and just-in-time developments at the suppliers and buyers. New chances lie in performing value added activities at the warehouses. The wholesale businesses in electro-technical industrial goods can play a leading role as "information supplier". They should be more alert to give market information to their suppliers and product information and advice to their buyers.

S.4 Spatial dynamics in the distribution channel of electro-technical industrial and consumer goods

A very important spatial reason to enlist wholesale businesses is the need of close-meshed distribution networks. Regionally orientated intermediate links in the distribution channel create smoother flows of information, orders, goods and money towards the final consumers. The intermediate links in the distribution channel of electro-technical industrial goods are mainly wholesale businesses. The large amount of small buyers in the distribution channel of electro-technical industrial goods clearly makes the distribution close-meshed. The buyers are widely spread over the country. The intermediate links in the channel of electro-technical consumer goods are the importers, wholesale businesses, retail chains and organised retailers. The process of up scaling in the distribution channel of electro-technical consumer goods does not lessen the need of a close-meshed distribution structure. The channel is strongly focussed on the final consumer, of course spread out all over the country.

The most important location factors, the possibility for quick deliveries and proximity to buyers, point out that the spatial network of the distribution channel of electro-technical goods is related to the final links in the channel. Both wholesale branches desire a location close the buyers to create a close-meshed structure. This is strengthened by the high demands of the buyers. With the highly managed just-in-time systems in the manufacturing and construction industries and the high demands of the retailers, the wholesale businesses have to fulfil the need of distributing the goods quickly and without mistakes, at the right time and place. Just-in-time works more efficiently when distances are smaller. Also the increased information, advice and service functions of wholesale business require personal contact with the buyers. Therefore, the spatial network is not expected to reach a larger scale. The wholesale businesses in electro-technical industrial and consumer goods both moved from the city centres to the suburbs and are concentrated in the open spaces of the west and middle of The Netherlands (in the area "Randstad" and the intermediate zone around the "Randstad") since the seventies. They are mostly found in large or medium sized cities on industrial or business sites for "light" business, well accessible by truck.

The fact that the location close to the buyers is much more important than the location close to the suppliers is illustrated by four cases of wholesale businesses in electro-technical industrial goods. The maps in chapter seven of the location of the suppliers of the wholesale businesses do not show a distinct spatial pattern. The spatial pattern of the buyers of the wholesale businesses are strongly concentrated around the wholesale businesses and their chain stores. From the maps of the buyers one can distinguish three types of wholesale businesses in electro-technical industrial goods:

- 1 the national operating wholesale business with regional chain stores, one central distribution centre or several regional distribution centres and a central office, with buyers spread all over the country;
- 2 the nationally operating wholesale business without chain stores, distribution centres or offices, with buyers located over a bigger part of the country, but not in the entire country;
- 3 the regional operating wholesale business, with buyers only scattered around them within the same region.

Even on the map of type 2 one can see a concentration around the wholesale business, although less strong. This implies that towards the buyers the wholesale businesses are regionally orientated and form an important part in the close-meshed distribution of the channel of electro-technical industrial goods. The four cases show that there is a weak connection between the location of the wholesale businesses and the location of their suppliers but a strong connection between the location of the wholesale businesses and the location of their buyers.

For the total wholesale sector the location close to the buyers is an important factor as well. The suppliers are generally located on a national and international scale and the buyers on a regional and national scale, a bit higher than the wholesale businesses in electro-technical industrial goods. In general one can state that the process of up scaling and internationalization could increase the number of businesses of type 1 on the account of type 2 and 3. This does not necessarily mean that the close-meshed distribution pattern will disappear or that the distance between the wholesale businesses and the buyers will increase. The efficient distribution of goods requires many different steps, made by numerous links in the channel. An illustrative example is the fact that many of the (inter)national take-overs of smaller scaled, regional wholesale businesses are often carried out precisely because of their strategic location in a region in order to open a new market or to make the distribution even more close-meshed.

The development of European distribution centres of the suppliers of the wholesale businesses will cause spatial shifts internationally. But these developments are not expected to influence the spatial dynamics of the wholesale businesses because of the absence of a clear spatial relation between the wholesale businesses and their suppliers. The up scaling of business occurring at the buyer's side of the wholesalers generally causes the elimination of the wholesale sector from the distribution channel. The other sectors take over the wholesale functions but need a close-meshed spatial pattern themselves.

An important conclusion of this research is that the functional dynamics, such as the up scaling of business and (international) business concentration, within the wholesale sector in general and the wholesale branch of electro-technical goods in particular, do not find expression in clear spatial dynamics, in the sense of up scaling the spatial distribution structure. The close-meshed distribution structure and the proximity to buyers remains of great importance. Therefore, the dynamics in the function and position of the wholesale sector in relation to other links in the distribution channel does not influence the spatial pattern of the wholesale sector.